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1995's PROFITS SLOWDOWN FOR 900 COMPANIES

SINESS WEEK
96 March 4

BusinessWeek

MARCH 4, 1996 A PUBLICATION OF THE McGRAW-HILL COMPANIES

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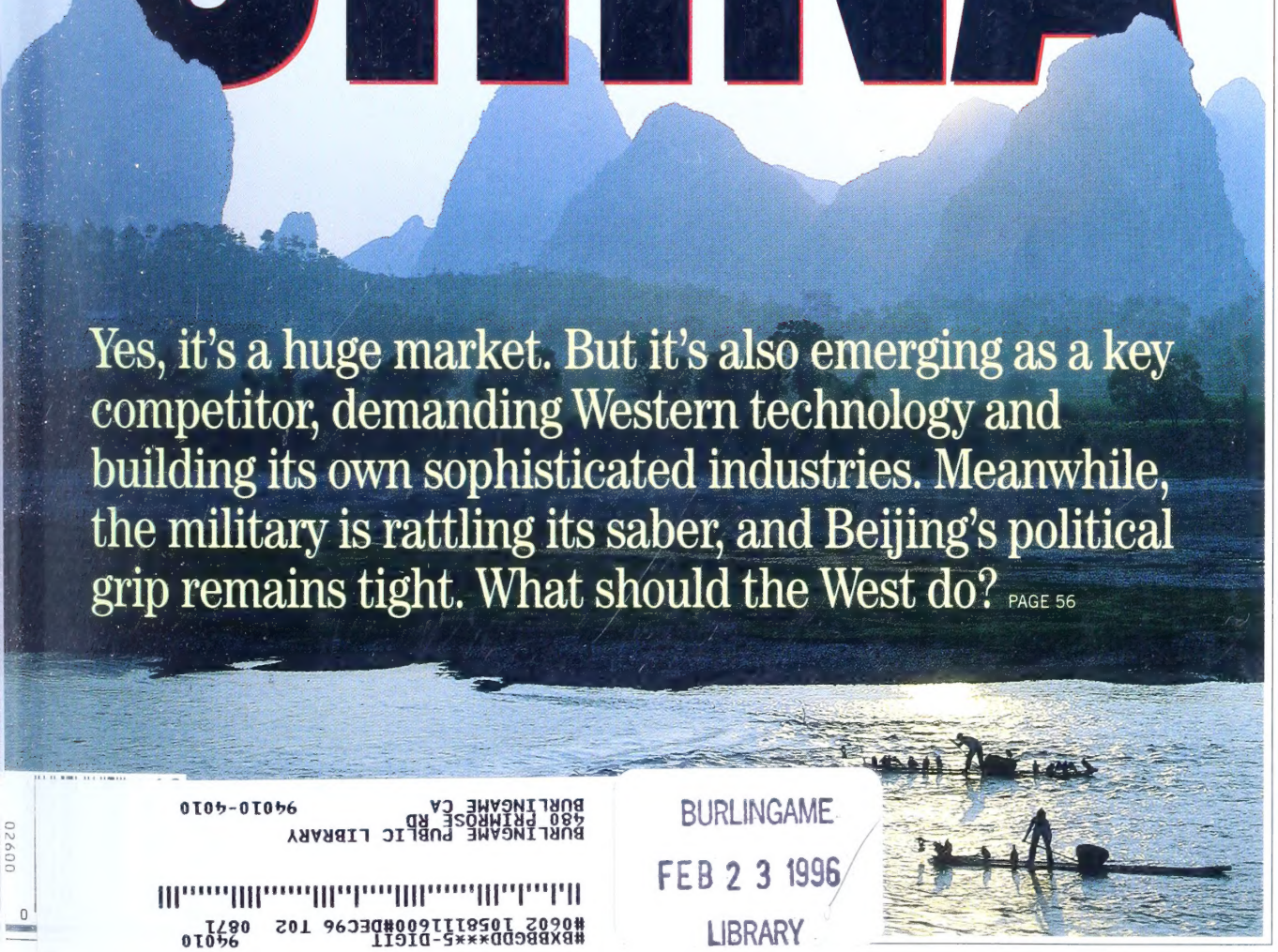
RETHINKING CHINA



Yes, it's a huge market. But it's also emerging as a key competitor, demanding Western technology and building its own sophisticated industries. Meanwhile, the military is rattling its saber, and Beijing's political grip remains tight. What should the West do? PAGE 56

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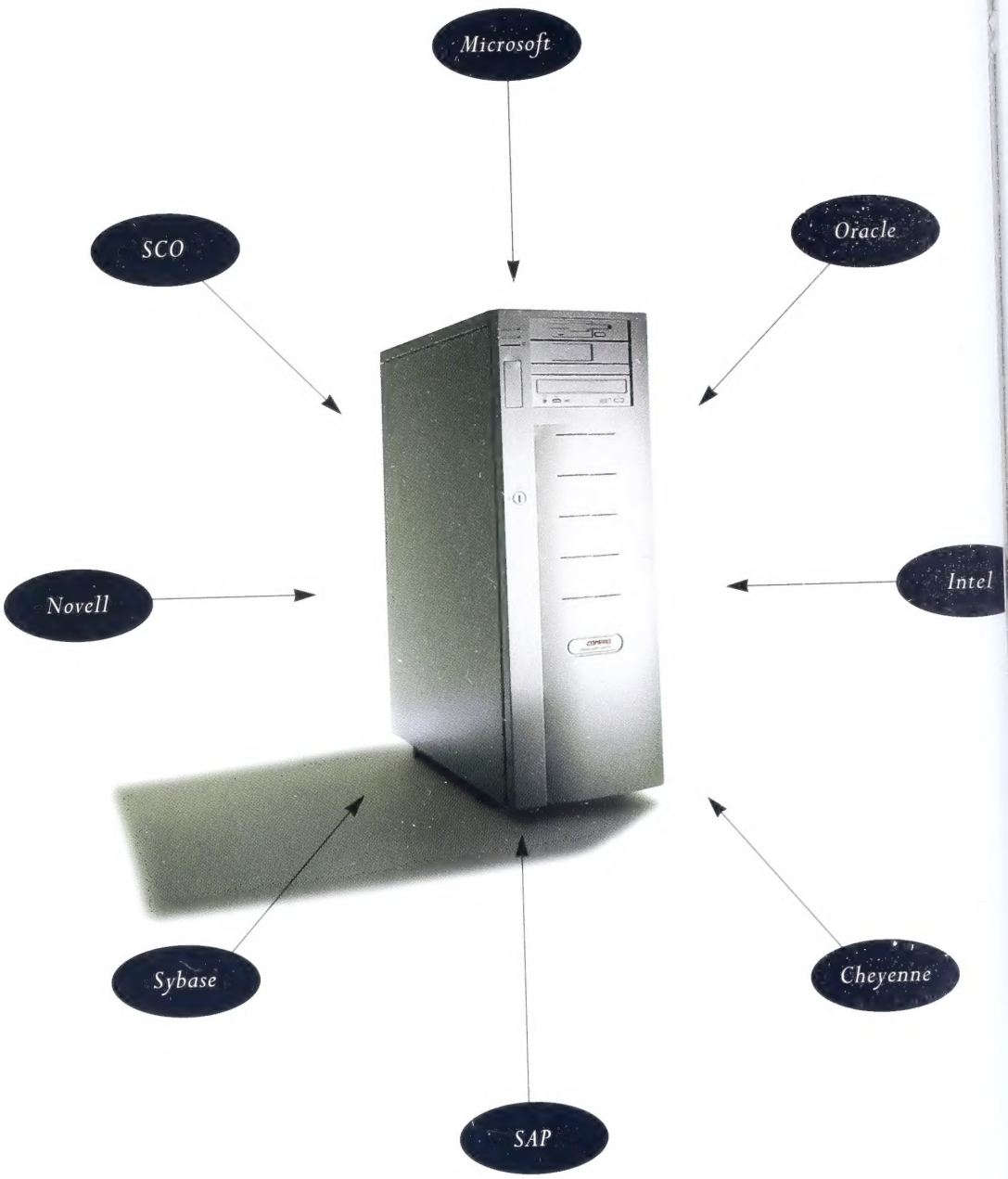

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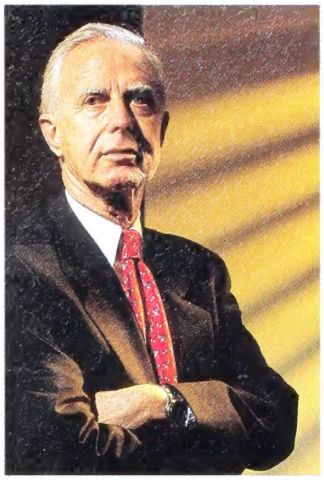
Has It Changed Your Life Yet?

BusinessWeek
MARCH 4, 1996



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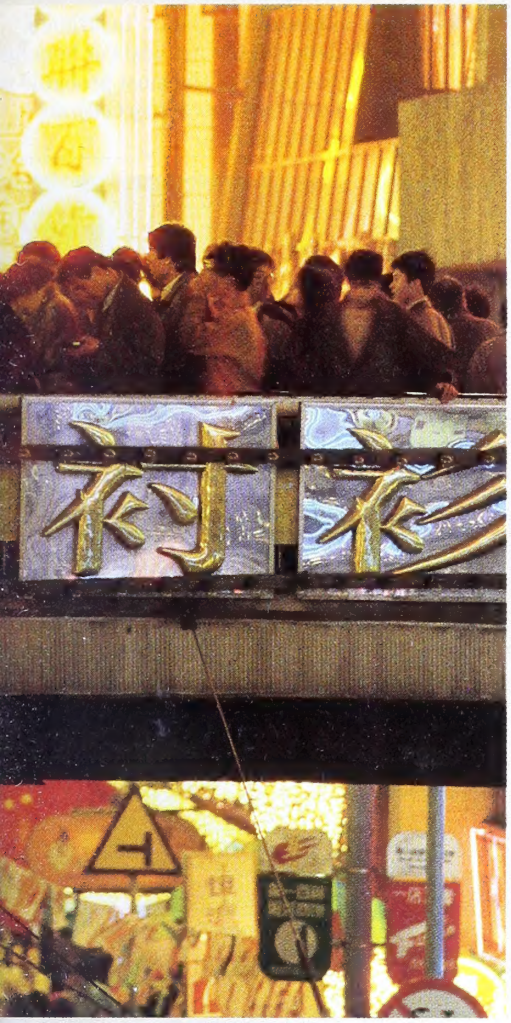
COVER PHOTOGRAPH BY LINDSAY HEBBERD/WOODFIN CAMP; (CENTER) PHOTOGRAPH ABOVE BY MICHAEL JUSTICE/GAMMA-LIAISON



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ves of intruders, including the likes AT&T and Microsoft, are storming into no-frills market

S TIME PASSED THE POWERPC BY?
e IBM-Motorola-Apple chip hasn't en come close to challenging Intel's minance in microprocessors

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No cold war with China, please

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

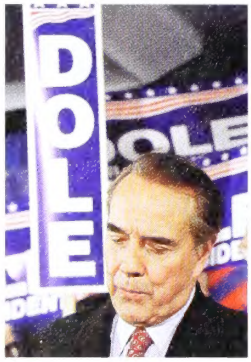
TALK SHOW "We take out monetary policy 'insurance' when we perceive an imbalance in the net costs or benefits o coming out on one side or the other of the most probable out come." *—Fed Chairman Alan Greenspan, telling Congress why he may—or may not—cut interest rates*

CAMPAIGN '96

FOR DOLE, WHEN IT RAINS, IT POURS

BOB DOLE IS LOSING SUPPORT in the executive suite. The Senate majority leader was the first choice of 39% of the senior executives drawn from the BUSINESS WEEK 1000 in a recent survey—down from 52% in early December. While he's still No. 1 among this group, the slide tracks his fortunes among GOP voters. He barely won the Feb. 12 Iowa caucuses and lost the Feb. 20 New Hampshire primary to Pat Buchanan.

Executives are no fonder of Buchanan than before: Only 2% support him now, up from 1%. The former commentator knocks Corporate America for layoffs and exporting jobs. And he derides the Kansas senator for close ties to corporate honchos.



OUCH! *Support erodes in the corner suite*

Dole's December executive support seems to have gone to Lamar Alexander and Steve Forbes. Former Tennessee Governor Alexander's backing among this set has more than doubled, to 15%. And publisher Forbes has risen from 8% to 14%, despite disappointing showings among voters. Nonetheless, ask executives who has the best chance of beating Bill Clinton, and the answer is overwhelmingly Dole (55%), with Alexander (19%) in second place.

The Harris Poll for BUSINESS WEEK of 421 executives began Feb. 9, just before Iowa, and concluded Feb. 20, before the New Hampshire results came in. □

GAME PLANS

GOODYEAR GETS A GRIP ON ITS FUTURE

SAM GIBARA, THE NEW CEO A Goodyear Tire & Rubber, i starting to unveil his strateg to lift the world's No. 3 tire maker back to No. 1 by 200 He'll launch products, cu costs, buy smaller tire com panies—and could spin o Goodyear's oil pipeline.

Don't expect him to go a ter big boys on the order o Pirelli. Gibara says he's leer of the debt such a purchas would entail. And Goodyea got burned badly by overlev eraging in the 1980s. A majo task of Gibara's predecesso Stanley Gault, in bolsterin the company when he too over in 1991 was cutting th $3.7 billion debt.

GIBARA: *Debt-le*

So look for more deals in emerging nations such as Goodyear's recent move to buy control of Polish tiremaker TC Debica. Gibara also wants to expand Goodyear's nontire businesses, which includ auto belts and hoses, as we as rubber chemicals. Th pipeline, now a moneymake after years as an albatros could fetch a good price—ar alysts say up to $700 millio Gibara says the pipeline i not a strategic fit, althoug he adds: "We are in no hurr to sell it." *Zachary Schille*

INFLUENCE PEDDLERS

REACH OUT AND TOUCH SOME POL

THE LANDMARK TELECOM BILL really got the money flowing on Capitol Hill. Some 50 political action committees representing companies in the telecommunications and broadcasting industries gave $1.7 million to House and Senate candidates in 1995's first half, the latest figures available.

That compares with $1.4 million in the same period of 1993, when talk about telecommunications reform was mainly just talk. President Bill Clinton signed the measure, which will turn the phone and media world upside down, on Feb. 8.

Also striking is the change in partisan giving patterns.

TOP TELECOM PAC RECIPIENTS

CANDIDATE	RECEIPTS*
LARRY PRESSLER (R-S.D.)	$92,485
JACK M. FIELDS JR. (R-TEX.)	91,500
DANIEL FRISA (R-N.Y.)	37,000
FRED THOMPSON (R-TENN.)	34,000
BOB DOLE (R-KAN.)	34,000

*First half of 1995 ■ Senator

DATA: FEDERAL ELECTION COMMISSION, CENTER FOR RESPONSIVE POLITICS

In 1993, when Democrats ruled Congress, the PACs divided their money fairly evenly between the parties. The GOP takeover of Congress brought a dramatic reversal, with $1,267,122 going to members of the new majority, while Democrats got just $473,289.

Not surprisingly, the major players in the telecommunications debate bagged the most. Senate Commerce Committee Chairman Larry Pressler (R-S. D.), who is up for reelection this fall, received $92,485. His office could not be reached for comment. On the giving side, AT&T's was the most generous PAC, with contributions of $240,245. *Stephen Wildstrom*

I-WAY PATROL

E-MAIL: BEWARE OF BIG BROTHER

FLAME-MAIL MAY BE A hallmark of Internet culture, but it can cost you your job. That's the lesson a Pillsbury employee learned when he messaged his boss that the boss's superior was a "backstabbing bastard."

Pillsbury fired sales manager Michael Smyth in January, 1995, after a colleague found printouts of the offending messages. A judge in January denied Smyth's claim for wrongful discharge.

Privacy advocates who sided with Smyth concede that he probably would have been fired for writing a similar paper memo. But they hoped that this case, a possible precedent setter, would treat E-mail as confidential. "It doesn't seem that the judge quite got what E-mail is," says David Banisar, an attorney at the Washington-based Electronic Privacy Information Center.

Philadelphia federal Judge Charles Weiner ruled that Smyth forfeited any "reasonable expectation" of privacy when he used a company network—even if the message was in tended for just one perso In fact, a company spokes man says, a scree reminds employee after logging o that their ma may be inter cepted. Smyt had settled hi claim just befor the court rule *Keith Hammond*

(CLOCKWISE FROM TOP) PHOTOGRAPHS BY WIN MCNAMEE/REUTER, TOM SALYER, ILLUSTRATION BY JAMES GARY

Winning

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organ FX marketers and clients ran together in the 1995 New York City Marathon

JPMorgan

Up Front

GREENBERG: *Mr. Memo*

RONCHOS

THE THOUGHTS OF CHAIRMAN ACE

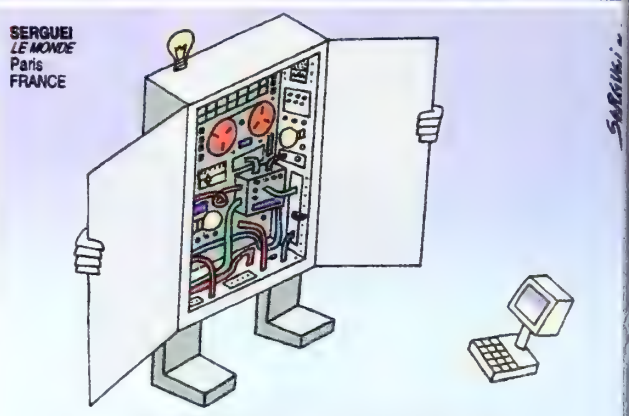
A BOOK OF MEMOS FROM THE front office? That sounds about as appealing as a compendium of great Scottish recipes. But bookstores in April will be selling a collection of Alan "Ace" Greenberg's memos dating back to 1978, when he took command of Bear Stearns.

And they're far from the ordinary bland management dispatches. Greenberg's epistles to the troops are an oddball blend of aphorisms and humor, illustrating his way of doing business. "Employees enjoy getting them," claims the ever-colorful Greenberg.

It wasn't his idea to publish *Memos From the Chairman* ($14.95). Workman Publishing's owner, Peter Workman, saw a sample and figured a Wall Street titan's musings would sell. Proceeds go to the Bear Stearns scholarship fund.

In the memos, Greenberg quotes the maxims of his fictional business philosopher, Haimchinkel Malintz Anaynikal, such as: "Thou will do well in commerce as long as thou does not believe thine own odor is perfume." Greenberg harps on the importance of returning calls ("even if the person is selling malaria") and saving money (shake toner cartridges to get more use out of them). And he shows his opinion of market theorists by announcing that he has finally hired one—Doodles Danenberg, a chimp at the Central Park zoo, who "will literally work for peanuts." □

DRAWN & QUARTERED



OBSCENITY ON THE INTERNET

ENGLISH-BASHERS? *Nope*

MELTING POT

BRING US YOUR POOR, TIRED MYTHS

AMERICA'S NATIVIST STREAK—the fear that immigratio drags down its average inte ligence and weakens the bon of a common language—gaining strength again. Var ous politicians want to lim immigration. And Bob Do calls for laws making Englis the country's official languag

New university researc finds the fears unwarrante In the largest study of it kind, Michigan State an Johns Hopkins sociologist looked at 5,000 children immigrants in California an Florida. They found that vi tually all are passionatel committed to speaking En lish fluently. Indeed, 81% all those born in the U. would rather speak Englis than their parents' tongue.

Overall, immigrants' kic get better grades than Ame icans. In San Diego, for e ample, their grades averag two-tenths of a point highe Yet there's a big irony: Th longer these children live the U.S., the lower the grades. That can happen only three years. *John Care*

AFTERLIVES

THIS COOKIE DIDN'T CRUMBLE

GORDON McGOVERN WAS forced out as CEO of Campbell Soup in 1989 by large shareholders charging he wasn't doing enough to turn it around. Since then, though, the now retired executive has produced a turnaround on a smaller scale.

His project was the tony Wooster School in Danbury, Conn. The prep school, which one of his children attended, teetered on the edge of insolvency a few years ago. Serving as treasurer of the school, he raised money and tightened financial controls. "We got it back from the brink," says McGovern, now 69 and living in nearby Ridgefield.

He's also on two corporate boards: Merrow Machine, an industrial-sewing-machine maker, and George Weston, a Canadian grocery chain (parent of Loblaw's Supermarkets). McGovern, once head of Campbell's Pepperidge Farm, says he's fond of the chain's "cookie interests."

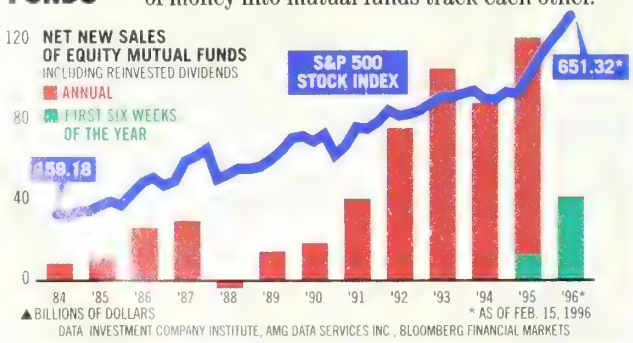
McGOVERN: *School hero*

How does McGovern assess David Johnson, Campbell's current CEO? Johnson has been bolder, selling off businesses and cutting the workforce to spur growth—and shareholder McGovern says he likes the stock's 45% rise over the past year, to 65. But his praise of Johnson is a bit backhanded: "I don't know if he's doing a good job, but the Street likes him. I don't know if that's the same thing." *Joseph Weber*

THE BIG PICTURE

FREE-FLOWING FUNDS

With no signs of slowing down, equity funds are a principal force behind the bullish market. Over time, market performance and the flow of money into mutual funds track each other.



FOOTNOTES Total amount in the 401(k) accounts of working Americans: 1993, $300 billion; 1995, $700 billion

The SAS® System Helps Monitor the Pulse of Patient Satisfaction

As more and more health care providers offer similar services at comparable prices, patient satisfaction is fast becoming the new basis of competition. To help monitor how patients perceive the quality of the care they receive, Intermountain Health Care (IHC) is turning to the SAS System of software.

"The SAS System has enabled us to develop a unique reporting system that includes all the information required by our front-line managers and administrators—in a format that works for them," says Glen McBride, IHC's manager of strategic research.

A Fast, Effective Remedy for Every Reporting Need

"We needed a reporting system that could get relevant, easy-to-understand patient feedback into the right hands in an efficient, timely manner," says Sarah Luker, research associate at IHC (pictured above). "The SAS System was the only software system that came close to meeting our complex reporting needs."

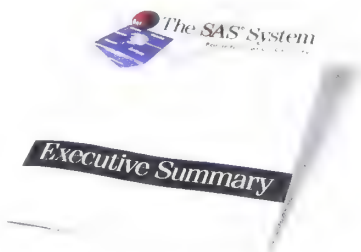
Since IHC serves almost a million patients every year, that's a lot of feedback. "With the SAS System, we generate hundreds of unique reports each month," adds McBride. "At a glance, managers can see how patients perceive the quality of various aspects of the hospital experience, such as admitting procedures, nursing care, and physician care."

A Healthy Dose of Relevant Consumer Data

"This valuable month-to-month feedback enables us to make *appropriate* changes to the care we provide," McBride explains. "And that helps us to offer the best possible care to patients who visit our 23 hospitals in Utah, Wyoming, and Idaho."

Having implemented such a successful reporting system for IHC hospitals, what's next? Luker says, "Because of its flexibility, we'll soon be using the SAS System to provide valuable customer feedback to employees across all *three* IHC divisions—the hospital, health insurance, and physician groups."

To receive a SAS System Executive Summary, give us a call or send us E-mail at bw@sas.sas.com



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Readers Report

CON ARTIST COME-ONS ARE A DIME A DOZEN

Your article "Stinging Small Business" (Special Report, Feb. 12) is frighteningly accurate. My company is at the end of a two-year startup phase and seeks financing to introduce environmentally friendly disposable products. Our technology is unique and holds great promise, yet finding satisfactory investors is our greatest hurdle. In six months of seeking next-phase funding, we have come across each of the tricks of the con artists that are described in the story. Fortunately, we have resisted the temptations.

Larry C. Shattles
Envirofilm Technology Inc.
Atlanta

WAS THERE A SECRET PRINTING OF PESOS?

Your editorial "Asia: Closed markets hurt growth" (Feb. 12) contains the following remark: "Actually, the Mexican crisis was caused by secret government printing of pesos ...." Unfortunately, your assertion is both untrue and slanderous. During 1994, figures on money supply were published every month, as they had been for many years. It can also be pointed out that the decline in inflation in 1994, to 7.1%—the lowest rate since 1972—and the very high level of real interest rates that prevailed throughout the year, starting in late March, hardly attest to a lax monetary policy.

Eduardo Turrent
Press Officer
Banco de México
Mexico City

NIELSEN IS NO SMALL-SCREEN BULLY

In your ill-informed and superficial cheap shot "Nielsen Schmielsen" (News: Analysis & Commentary, Feb. 12), you trod a tiresome old rut: that Nielsen is a monopolist and bully. More often, it's the high-ticket client who is the bully.

CORRECTIONS & CLARIFICATIONS

"What hath Yahoo wrought?" (Information Processing, Feb. 12) stated that "Wall Street expects Yahoo to be the first company in the [Web-search] category to go public." In fact, a Canadian company called OpenText has already gone public.

As a former employee of a competito (Arbitron), I know firsthand that th TV survey business is enormous in scop and complexity; occasionally, somethin will go wrong. That is no indictment Few market researchers are called upo by their clientele to produce daily, mas sive amounts of data at the levels o accuracy that the TV industry de mands—and get it right almost all th time, as Nielsen does.

Nielsen—whose data I have used o a daily basis the past 15 years—ma be big and slow, but it is well-meanin and honest. They certainly did not ru Arbitron out of the TV measuremen business with predatory practices, a your article implies. Arbitron struggle for years to make their television divi sion profitable. A key reason they close it down relates to the merger excesse of the '80s: Driven to slash costs, man station clients cut back to one ratin service instead of two, and not enoug chose Arbitron. Finally, Arbitron di not "quit the TV market after thre years." I have a copy of their first rat ing book—dated May 11-18, 1949.

John Fulle
Alexandria, Va

CALIFORNIA: STILL WELFARE'S GOLDEN STATE

Regarding your item "Does welfar act as a magnet?" (Economic Trends Feb. 12), there appears to be a majo flaw in at least one premise in the re search of Messrs. Levine and Zimmer man of the National Bureau of Econom ic Research: that "single men, childles women, and married couples" are ineli gible for welfare. While this may cer

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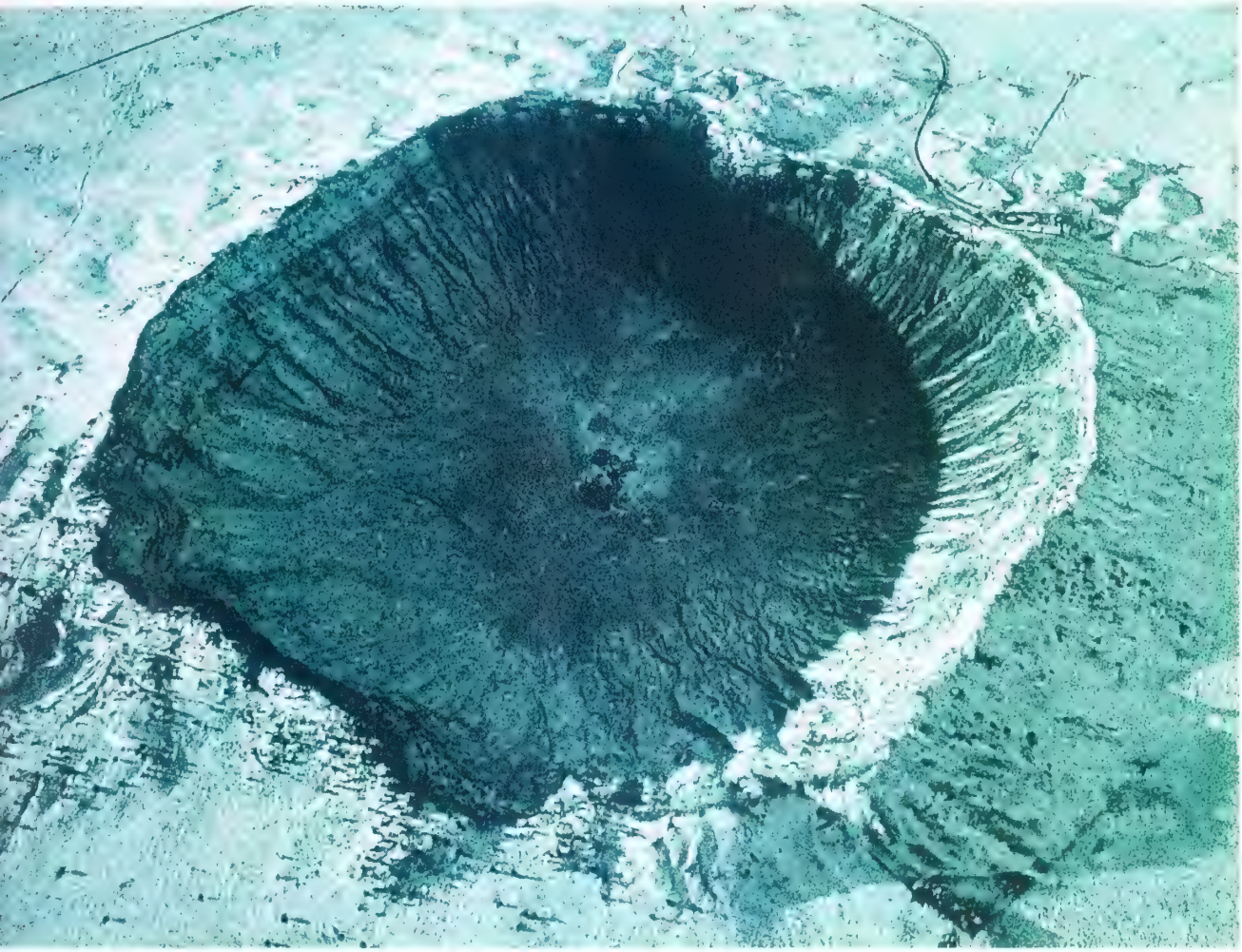
YOU DON'T SEE YOUR INSURANCE COMPANY UNTIL YOU MAKE A CLAIM. WHAT ARE YOU GOING TO GET WHEN THEY FINALLY DROP IN?



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tainly be true with Aid to Families with Dependent Children, that is by no means the only form of largesse foolishly extended by state governments and shamelessly abused by interstate indolents and itinerants. California, whose General Assistance program is one of the most profligate providers of such gratuitous relief, pays anyone who shows up in the Golden State to claim his, her, or their unjust reward. In San Francisco, the monthly benefits are about $450 per person—tax-free and precious few questions asked, except for the now ubiquitous "Spare change?"

G. Michael German
San Francisco

DIRECPC CAN HAUL DATA WITH THE BEST OF THEM

I read with great interest your look at the various options for upping the speed limit on the Information Highway in "The big daddy of data haulers?" (Science & Technology, Jan. 29). While comparing DirecPC to either integrated-services digital network or cable modems has many of the "apples-to-oranges" problems, I would like to point out that the chart does not use the total bandwidth of the DirecPC system for its calculation of a video clip download. Although DirecPC bandwidth is shared among its users, just as a cable system is, using a similar "total bandwidth" approach would show DirecPC to be three times faster than 4 megabit-per-second cable modems. The download would take less than seven seconds, not the 10 minutes depicted. However, the fruit-comparison problem becomes even more significant when one examines the following:

- DirecPC, a satellite system, has tremendous scaling advantages. As the article points out, if a cable system gets bogged down, additional fiber can be added. This requires regional investment in infrastructure. At DirecPC, we currently provide our service on a single satellite transponder (channel). To add capacity, we add a transponder, and suddenly our capacity has doubled. That additional capacity, by the way, is equally accessible from Las Cruces, N. M., Santa Barbara, Calif., Albany, N. Y., or anywhere else in the continental U. S.
- DirecPC can send the same data to any number of receiving sites. For example, try sending that hypothetical 10-megabyte video clip to 1,000 users spread throughout the country. On ISDN and cable, that could be 1,000 individual point-to-point connections. On DirecPC, the data can be sent to all 1,000 sites in a single transmission. So would that be a 12 megabyte-per-second download or a 12,000 megabyte-per-second download?

James R. Aloise
Marketing Manager, DirecPC
Hughes Network Systems
Germantown, Md.

Editor's note: DirecPC does offer a broad range of services such as data broadcasting. But point-to-point data transmission is about the same speed as ISDN in busy periods.

RUSSIA HASN'T EARNED ITS BAILOUT YET

Regarding your International Outlook report "Yeltsin to voters: Reform? Never heard of it" (Feb. 12): However "politically correct" it may be not to provide Russia with all the aid she needs to carry on with political and economic reforms, it seems highly inadvisable to throw good money after bad before one knows more or knows about whether the reform process will in fact continue after the forthcoming presidential elections in June. At this moment, the vibes are not encouraging. The International Monetary Fund loan of $9 billion ought to be reconfirmed but withheld until all the dust from the presidential election settles.

Karl H. Pagac
President
Pagac & Associates
London

SMILE WHEN YOU SAY 'RETREAD,' PARDNER

In your article "China Tire may be unduly deflated" (Inside Wall Street, Jan. 8), you said: "On the Big Board, China Tire Holdings behaves as if it were a retread." The article then went on to report how the stock of the company had fallen.

The pejorative use of the word "retread" continues to perpetrate the myth that retreads are of a lesser quality than new tires. In fact, retreaded tires perform as well as new tires, and millions of motorists, trucking companies, commercial airlines, school buses, and other users depend on retreads to deliver the same safety, performance, and handling features as new tires, but at a far lower cost.

Harvey Brodsky
Managing Director
Tire Retread Information Bureau
Pacific Grove, Calif.

WHO'S THE CYNIC: HILLARY OR HER REVIEWER?

Keith Hammonds' review, "Hillary 300-page campaign speech" (Books, Fe 12), was the most cynical book review recent memory. Hillary Clinton and he husband have undoubtedly decided t reposition the First Lady along mo traditional lines. This book suggests th they have learned that her focus o children's issues will be less controve sial than her earlier role in developin health-care policy. Other First Ladie have been on safe ground advocatin for literacy (Barbara Bush), the ar (Jacqueline Kennedy), and staying awa from drugs (Nancy Reagan).

However, your reviewer couldn pass up an opportunity to bash Hillar once more. To characterize the boo as a "300-page campaign speech" quite a stretch. The Clintons are i veterate campaigners, of course, an this may explain Hillary's choice rhetoric in making her case. But th cynicism of Hammonds in this review exceeded only by his own waffle glosses, and pirouettes around th book's advocacy of a true communit approach to the solution to children problems in today's world. I nearl laughed out loud at Hammonds' com ment, "In principle, I agree—but th finely calculated ambivalence is disturb ing." What is more disturbing t me is a book reviewer who is more p litically motivated than interested i exploring the merits of Mrs. Clinton ideas.

George W. Ric
Osterville, Mas

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EY ONLY LOOK DEAD
y Progressives Will Dominate the Next Political Era
E. J. Dionne Jr.
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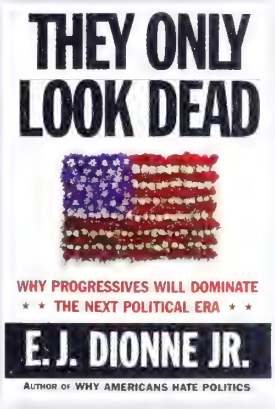
DEMOCRATS DON'T HAVE TO BE DINOSAURS

t should come as no surprise that the populist campaign of Republi-can Patrick Buchanan is showing ns of life. As far as *Washington Post* umnist E. J. Dionne Jr. is concerned, global economy, stagnant wages, and sense that things are out of control e long been on top of voters' minds. t, Dionne writes in his perceptive w book, *They Only Look Dead*, most iticians haven't gotten the message. Buchanan's vituperation over trade reements and corporate greed fills a cuum left by both par-s, says Dionne. The au-or convincingly argues t while Republicans and mocrats debate old is-es about whether gov-ment should be big or all, the squeezed middle ss is desperate for gov-ment that governs well. nsequently, Dionne is e to make a strong case t opportunity is knock-for the Democrats to me up with a positive al-native to Buchanan's ec-omic nationalism—and a less convinc-case that the party will respond.

Although the "Anxious Middle" of the S. electorate realizes that govern-nt can only do so much, Dionne be-ves voters "are worried about their spects in an economic order in which vernment withdraws and removes ba-social protections." He attacks the P for mistaking voter anger about itics-as-usual and Democratic failures public rejection of government. But also scores the Democrats for squan-ring an opportunity during the Clin-n Administration's first two years to monstrate "the possibilities of re-med and modernized government."

To justify his faith that the public is ady for an innovative government led by Democrats, Dionne looks to a period of similar upheaval—the late 1800s, when agrarian America was moving into the Industrial Age. Like conservatives today, the robber barons believed material progress depended on unfettered capitalism. Eventually, the Gilded Age gave rise to the Progressive movement and legislation restricting market excesses. The Democrats may look dead, but Dionne thinks the public is ready for a new Progressivism, and the Democrats, he says, are the only organization able to deliver.



But for Democrats to come up with a prescription that will help the middle class expand opportunities in the new economy would mean a rethinking of Democratic liberalism, says Dionne. He believes liberals have failed to meet the desire of Americans for creative government. If they're to carry on the Progressive tradition, they will have to discard the notion that government has boundless capabilities.

You don't have to be a Bill Clinton fan to agree with the author that in 1992, the President was smart to tap voters' sense of economic crisis and fears about crime and the decline of the two-parent family. Even though Clinton helped reposition the Democrats on these questions, party divisions were so deep that he was unable to "forge a new intellectual synthesis." But Dionne fails to emphasize Clinton's personal failings: He didn't stick to his campaign themes, nor did he have the leadership qualities to convince his party to support him.

Clinton aside, disarray is just another name for Democrats, and Dionne may be overestimating the chances of a

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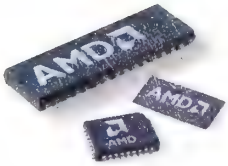

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Books

Democratic philosophical epiphany. Clinton wins a second term, there's r reason to believe his party is any mor likely to unite behind him than the were two years ago. Democrats rema divided over such issues as welfare r form, trade, and health care. So even they manage to win a small House m jority in the upcoming elections, it hard to believe that Democrats are o the verge of a big comeback.

Still, whether or not you agree tha the Democrats are on the reboun Dionne's book is worth reading. He probably the most astute of our cu rent political commentators at describin and analyzing the development and ph losophies of political movements. Aft examining the pushes and pulls with the Democratic Party, he performs similar analysis of GOP divisions and ho House Speaker Newt Gingrich (R-Ga united them. Dionne's analysis: That ur ty could be ephemeral, as the primar season is showing. And the new R publicans' rejection of government bound to fail, says Dionne, because th voters ultimately won't buy it.

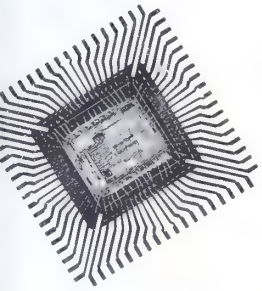
They Only Look Dead ends with potpourri of initiatives that Dionne su gests Democrats can use as the bas for their New Progressivism. Many them—making pensions more portabl say, or initiating a public campaign to en courage fathers to care for their kids- aren't new, but are on the right trac The most innovative is "second-chan homes": Young welfare mothers wou live in supervised settings with the children. This type of program, Dionn argues, accepts the seriousness of mor concerns while acknowledging the role government in helping the needy. Bu his proposals for universal health ca would be costly. And requiring higher l bor and environmental standards fro countries that are parties to free-trad pacts is probably unrealistic.

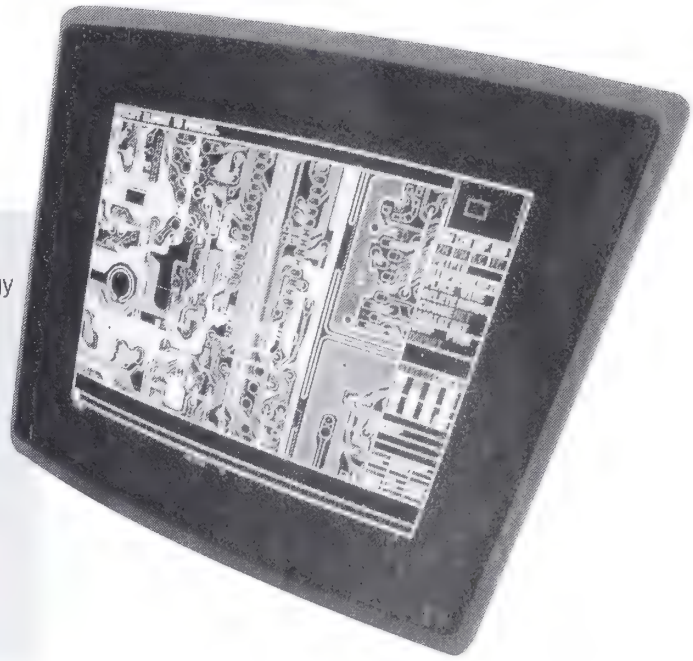
Recently, the Democrats have floa ed new proposals such as tax breaks f companies that provide a certain level training, wages, and benefits. But f some problems, there may be no re solutions: It's far trickier for new Pr gressives to address dislocations cause by global competition than it was f past reformers to treat capitalism's abu es within our borders. But Dionne right about the big point: Middle-cla fears won't go away, and politicians wh don't help voters navigate the new eco omy shouldn't be shocked if their rag finds expression in radical outlets.

BY SUSAN B. GARLAN

Garland covers the White House an national politics for BUSINESS WEEK.

What's now, what's new...





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BY STEPHEN H. WILDSTROM

HARD-TO-BREAK WINDOWS

Microsoft's new NT system will almost never crash, and security is top-notch

I'm peering at a screen that looks just like Windows 95—right down to the My Computer icon and the Recycle Bin. The only hint of something different comes when I click the Start button: The menu announces a Windows NT Workstation instead.

This new Microsoft operating system is worth looking at for a lot of people. Known for now as the Windows NT 4.0 Shell Upgrade Release, it's likely to be a big hit with corporate users—Microsoft's primary target—who have been resisting the move to Windows 95. What's more, this new NT, now in large-scale field testing and scheduled for release before midyear, should also prove attractive to small businesses and even some home users.

LIMITED VIEW. Why go with NT? For one thing, it's almost crashproof. Applications will still hang, but the problem can almost always be fixed by restarting the program without rebooting the computer. Security is also a big attraction. If I want to call into my office machine from home, Win95 requires that I leave it running, and anyone who comes along has full access to the computer. With NT, I simply fire up the remote access service and log out. I can dial in, but the machine is locked to everyone else.

Or consider a small business where Bob keeps the books but Alice occasionally shares his computer. Alice has no reason to look at the accounting information, but Bob must protect the data from accidental or malicious damage. Under Windows 95, there's no safe way to share a computer. Anyone who can get on a Win95 machine can call up any file. With NT, Alice could be given a restricted account that only allows her to see or change the files she needs. It takes a bit of effort to set this up properly, but once done, the security measures meet stringent standards that are required for sensitive government data.

Some home users might find this feature practical, too. For instance, parents can keep their electronic files separate from the kids' in such a way that even a very clever teenage hacker won't be able to defeat.

There are drawbacks, however, to choosing NT, especially for those who use a personal computer at home and small businesses. The biggest one is that a lot of DOS and Windows 3.1 software, particularly games, won't run with NT. Any program other than a game or utility that carries the "Designed for Windows 95" logo should work, however. NT lacks Win95's plug-and-play features and is only compatible with a limited range of sound cards, CD-ROM drives, and other accessories. NT's lack of plug-and-play and its poor handling of PC Card devices makes it far inferior to Win95 on laptops. And using NT effectively means doing a good bit of homework to understand how to use it, even though the newest version is an improvement over its user-hostile predecessor.

MUCHO MEMORY. Then there are cost issues. NT officially requires a 33-megahertz-or-faster 486 processor and 12 megabytes of RAM, but you're not going to be happy with less than a Pentium and 16 megabytes. Any new Win95 machine you're likely to purchase should do fine if it has enough memory, but upgrading some older computers could be a problem. Windows 95 generally comes free on new machines and costs $90 as an upgrade. While no price has yet been set for NT 4.0, it probably will be close to the $300 single-unit retail of the current version, 3.51.

That may sound expensive. And for some people it is. So cost-wise, the wide range of programs and accessories available for Win95, coupled with its ease of use at home and on the road, more than make up for the lack of security and occasional crashes. But for serious business work, the price tag on NT is a bargain.

BULLETIN BOARD

CAMERAS

DIGITALS ZOOM AHEAD

Digital cameras are getting more sophisticated, with Kodak and Chinon adding auto focusing zoom lenses to the plain-Jane units introduced last year (BW—Nov. 20). The new $950 DC50 from Kodak Digital Science (800 508-1531) offers a 3-to-1 zoom, roughly equivalent to a

35mm-to-105mm range on a 35mm camera. The new camera also lets you save pictures to removable credit-card-size flash memory cards. The 1-megabyte internal memory holds just seven best-quality pictures; a 5-megabyte PC Card, available for around $300, holds 35 more. The older DC40 camera, with a fixed focus lens, remains available at a reduced price of $650.

ACCESSORIES

A BETTER MOUSE PAD

The Precise Mousing Surface from 3M (800 364-3577) may be one of the dumbest product names ever, but it's still a good idea. This replacement for a conventional mouse pad, available for under $15, is less than a millimeter thick, reducing wrist strain. A high-textured surface allows for accurate mouse movement—while helping, the company claims, to keep oil, dust, and dirt out. A rubbery backing keeps the surface firmly attached to even the smoothest desktops.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125

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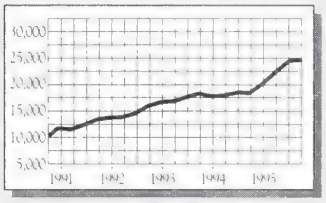

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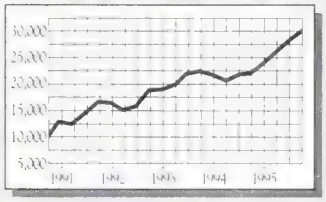

Value of investment: $30,335
Average annual returns (as of 12/31/95):
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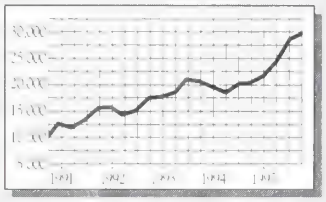

Value of investment: $29,813
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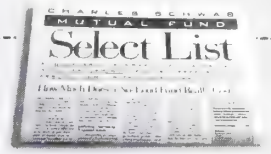
MORNINGSTAR *Data provided by Morningstar, Inc. as of 12/31/95. These and over 350 funds are available through Schwab's Mutual Fund OneSource.*



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BY PAUL CRAIG ROBERTS

MEXICO: DON'T BLAME SALINAS FOR ZEDILLO'S MISTAKES

TAR BRUSH: The attack on Salinas is an effort to discredit his reforms, which gave Mexicans their first taste of economic freedom

The reputation of former Mexican President Carlos Salinas de Gortari, one of history's great reformers, is being blackened by the consequences of his successor's ill-considered peso devaluation—an act that Salinas' government had the good sense to avoid. More is at risk in the campaign against Salinas than his reputation. The fate of Mexico is at stake. The attack on Salinas is an effort to discredit his reforms, which gave the Mexican people their first taste of economic freedom and the rule of law in their history.

Mexico's historic break from a corrupt patrimonialist state, which politicized the economy and handed out economic privileges based on favoritism, began under Salinas' predecessor, Miguel de la Madrid, who struck a new path when he privatized 122 companies during 1982-86. But it was his protégé and successor, Salinas, who brought the powerful scepter of the Mexican presidency crashing down upon the heads of the corrupt old guard that had made Mexico an influence-peddler's paradise.

Salinas (PhD, Harvard University) and his band of reformers, Pedro Aspe Armella (PhD, Massachusetts Institute of Technology), Jaime Serra Puche (PhD, Yale University), Jacques Rogozinski (PhD, University of Colorado) and others dismantled the socialist institutions that had permitted the ruling Institutional Revolutionary Party (PRI) to allocate profit-making opportunities through the political process. They took the only possible course for Mexico to become a modern country, but it was to the great disadvantage of the personal interests of powerful members of the PRI, which has dominated Mexico since 1929. Prior to de la Madrid, becoming a Mexican president was a surefire way to become a billionaire.

The Mexican reforms owe much to the debt crisis of the early 1980s, which dried up commercial bank loans to Mexico, and to the drop in oil prices. The PRI no longer had the money to keep afloat the patrimonialist system it had constructed. The old guard fell on the defensive, and people with a different view of government seized power.

The old economic nationalism was discarded, trade barriers were dismantled, the socialized Mexican economy was sold to private buyers, and the banking system was privatized. Private companies multiplied as the government receded, and for the first time privilege began taking a back seat to mri Salinas insisted on a rule of law that pro tected property rights and curtailed the fis cretionary power of government officials.

All of this was good for Mexico, bu it wasn't good for the PRI dinosaurs who fou the new rules to their economic disadva tage. Moreover, they no longer inspired the fear that had given them so much weigh to throw around.

Their chance came when Presid Ernesto Zedillo Ponce de León succum to pressure to devalue the peso by 15% in December, 1994, just after assuming of The thinking behind the devaluation was ha it would make Mexican goods more comp tive and reduce the country's trade de which was thought to be the source f weakening currency.

DASHED HOPES. The devaluation, as ou ing finance minister Pedro Aspe had war did not work. Instead, it shattered the tr that had been established between the Mex can government and investors to preventin abrupt downward movement in the valu the peso. With investors' confidence destro and capital fleeing the country (Mexican mo ey left first), the government was unab to hold the line at 15%. It dropped to 40%, and the Mexican stock market followed.

The consequences for Mexico have be dire. A controversial U.S.-led bailout has Mexico again mired in foreign debt. Wo the country fell under an International Mo etary Fund austerity program that wa proven to be a death sentence for emerg private businesses. The country suffers hig unemployment, and the devaluation was vi ly inflationary.

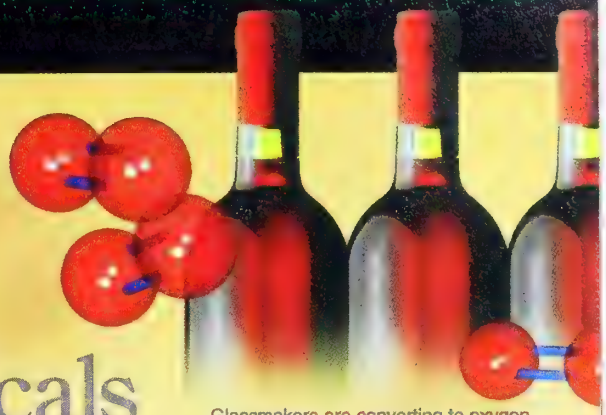
Dashed hopes are everywhere. The di nosaurs and their media allies blame the ec nomic reforms of Carlos Salinas and are ex horting the country to return to its sta tradition. Salinas' reputation is further hur corruption charges against his brother, Ra and what could be an attempt to frame hi for the murder of José Francisco Ru Massieu, a top PRI official who was once m ried to the Salinases' sister.

Mexicans had best get a grip on th selves. However painful the recession ca by the peso's devaluation, it counts as re ing when measured against life in an un countable one-party state where success de pends on bootlicking.

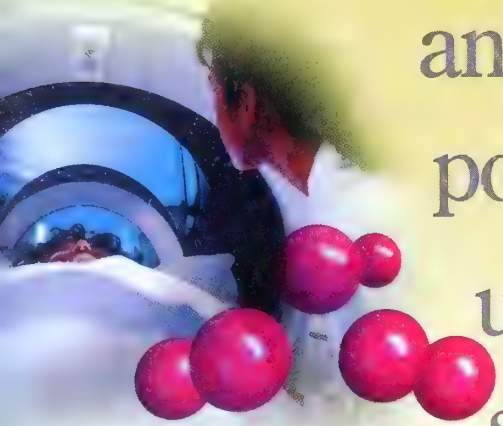
Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

PRAXAIR ATTACKS

horny problems in glassmaking and medicine and chemicals and chips (computer or potato) and solves them using basic molecules such as hydrogen, helium, nitrogen or oxygen and ingenious new technologies which are cleaner and less costly.



Glassmakers are converting to oxygen furnace technology. It helps meet environmental goals economically by reducing energy needs and emissions.



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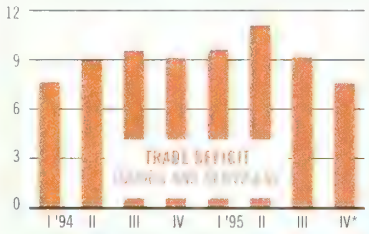
BY GENE KORETZ

U.S. EXPORTS GAIN AN EDGE

They're rising around the globe

For watchers of the U.S. economy, one of the biggest surprises of 1995 was the sharp turnaround in the trade deficit. Early in the year, the omens were anything but positive. Japan, America's second-largest customer, was mired in recession. Mexico, its third-largest, was in economic collapse. Yet U.S. merchandise exports rose by close to 15% during the year, and the deficit, aided by a drop in imports, has been shrinking steadily since July.

The big question is whether exports can continue to provide enough fuel to shore up a sluggish U.S. domestic economy in the months ahead. One economist who thinks the answer is yes is Joseph P. Quinlan of Dean Witter Reynolds Inc., who points out that U.S. exports are extraordinarily diversified in terms of both products and markets.



▲ BILLIONS OF DOLLARS, MONTHLY AVERAGE

DATA: COMMERCE DEPT. *BASED ON OCT. AND NOV. LEVELS

Unlike other countries, the U.S. is a major exporter not only of capital goods and industrial materials but also of agricultural products. Indeed, all three categories posted double-digit increases last year, with agricultural products up some 22%, to a record $50 billion-plus.

Meanwhile, the U.S. has been successful in diversifying into emerging markets in Asia, Latin America, and elsewhere. In 1990, such markets accounted for 35% of U.S. merchandise exports, compared with 42% going to Europe and Japan. But, by last year, the emerging-market share was up to 42%, vs. 34% for Europe and Japan.

Just as important is the rise in U.S. competitiveness stemming from years of productivity investments and restructuring. Indeed, double-digit increases in U.S. exports to sluggish European and Japanese economies last year underscore the enhanced competitiveness of U.S. products. All of this suggests that U.S. exports are well positioned to sustain the expansion this year. Despite the stronger dollar and weak European economies, says Quinlan, "even modest growth in the world economy should bolster our trade performance."

THE FORBES EFFECT ON GOLD

Its fortunes seemed to rise with his

With labor costs hardly rising and materials prices falling, the consensus among the experts is that the runup in gold prices has little significance as a precursor to inflation. So why has gold surged higher? Aside from the usual explanations, such as a shift in forward selling by gold producers, economist Sam Nakagama of Nakagama & Wallace Inc. sees a political connection.

Noting that gold took off as Steve Forbes began to gain ground in public opinion polls, Nakagama think it's hardly a coincidence that Forbes is a longtime advocate of a return to the gold standard. Since Jack Kemp and other supply siders share this view, Nakagama thinks Forbes's prominence has turned some gold bugs bullish about the likelihood that the metal will receive strong support at the Republican convention.

Gold prices have slipped recently, and so has Forbes's popularity—giving some credence to Nakagama's thesis.

A PAUSE THAT REFRESHES?

Recession fears may be excessive

According to the experts, a spate of dismal economic reports—from sagging consumer confidence and rising jobless claims to weak export orders and home sales—suggests that the economy will come perilously close to posting negative growth in the first quarter.

Stephen S. Roach of Morgan Stanley & Co. isn't worried, however. "Every economic expansion in the entire post-World War II period," he points out, "has been interrupted by one quarter of outright decline in GDP." And in each expansion, he adds, the temporary drop in economic activity was followed by a quick resumption of growth that typically lasted for several year

In the spring of 1986, for instanc the economy contracted by 0.3%—lea ing the Fed to ease aggressively as i flation fell in the wake of collapsing prices. By early 1987, however, grow had spurted back to 4% and inflati was climbing rapidly—suggesting th the Fed had merely added fuel to a r bound that was already under way.

As Roach sees it, the economy is cu rently experiencing a similar class "midcycle pause." Indeed, he feels th the economy is in a better position bounce back this time, with the cons mer debt service burden no higher th in 1986, productivity growing faster, a the dollar and real long-term intere rates far lower.

If Roach is right, the danger is n that the Fed will ease too little in t months ahead, but that it will ease t much—laying the groundwork for sharp pickup in growth once the curr inventory correction is completed—a an abrupt return to monetary restrai

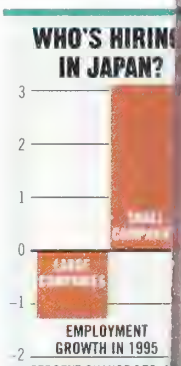
IN JAPAN, SMALL IS BEAUTIFUL

And large companies are trailing

Although it hasn't made headlin much of Japan's economic restr turing is taking place among sma companies with fewer than 500 empl ees, reports economist Ronald Bev qua of Merrill Lynch & Co.

Government policy is one reas New regulations have promoted inv ment by investment trusts and p sion funds in small over-the-coun companies. And steps have been ta to encourage the growth of vent capital firms and new businesses, p ticularly in information industries, to foster investment abroad.

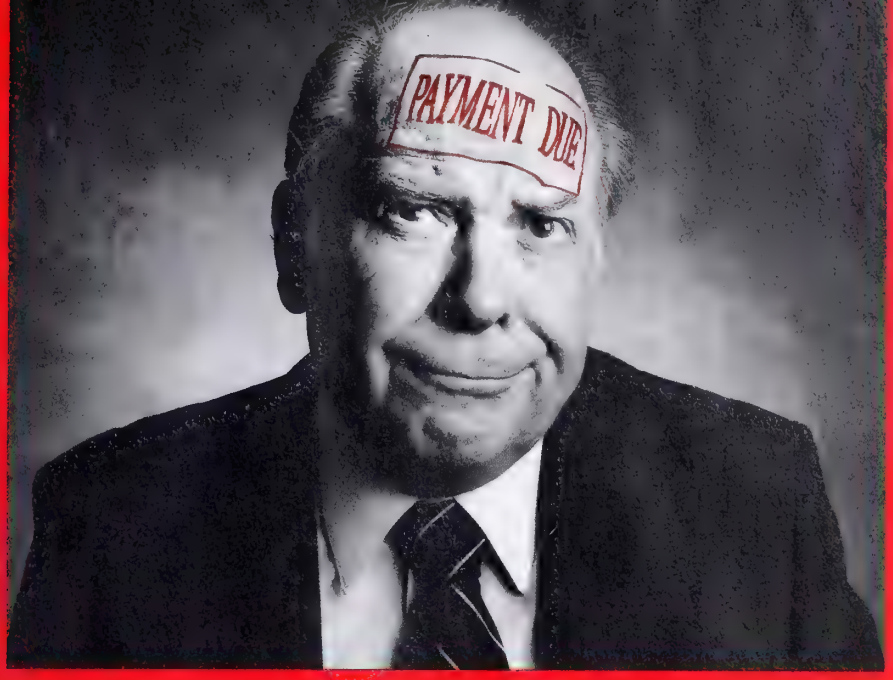
As a result, many small companies have been moving into new business areas and starting ventures overseas. Smaller companies also posted year-over-year advances in both employment and capital spending at home last year—while large Japanese companies continued to lag behind.



▲ PERCENT CHANGE DEC. 1 TO DEC 1995

*UNDER 500 EMPLOYEES

DATA: JAPANESE MINISTRY OF



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JAMES C. COOPER & KATHLEEN MADIGAN

BEHIND THE FEDSPEAK: MORE RATE CUTS

U.S. ECONOMY

On Feb. 16, Bill Clinton threw out what amounted to a policy llenge to Federal Reserve Chairman Alan Greenspan his Chief of Staff Leon E. Panetta. "The Presi- nt believes there is some room for additional growth," netta told reporters. Coming from an Administration t has gone out of its way to make nice with the Fed, remark sounded like a broadside.

The White House is aware that the economic re- ts of late have been less than sterling. It sounds like nton, angered by the Republicans' rejection of pro- owth Fed candidate Felix Rohatyn, is setting up eenspan as a scapegoat, just in case the economy ns sour along the election trail (page 34).

A FED'S-EYE VIEW OF THE WORLD

THE FEDERAL RESERVE'S CENTRAL-TENDENCY FORECAST
4Q-TO-4Q PERCENT CHANGE

	1995 ACTUAL	1996 FORECAST
AL P	1.5%*	2.00-2.25%
NSUMER ICES	2.6%	2.75-3.00%
EMPLOYMENT TE (4Q)	5.6%	5.50-5.75%

*BUSINESS WEEK ESTIMATE
DATA: FEDERAL RESERVE, BUSINESS WEEK

Indeed, some new economic risks have emerged, and most can be laid at Washington's doorstep. Policy, both fiscal and monetary, is turning out to be much different for 1996 than what economists had generally assumed at the end of 1995. First, a budget-balancing deal, which was expected to push down long-term interest rates, is no- here in sight. Instead, stingy continuing resolutions, hich force some 10% to 15% of the government to op- ate at about 75% of last year's funding, are a drag on owth.

Moreover, past Fed tightening may be squeezing e economy more than had been presumed—to the int where the central bank has acted recently as if it inks it is behind the curve on assuring that the econ- y will not slip into recession. The Fed has cut inter- t rates faster, and seems likely to cut by more, than d been anticipated.

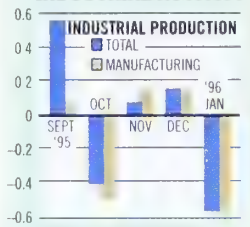
REENSPAN ADDRESSED the economy's prospects length during his semiannual testimony before Con- ess on Feb. 20-21. He admitted that several depress- ts were currently weighing on growth. However, e effects of weather and the government shutdown ere "transitory," he said, while the more significant ags from reduced government funding and an adjust- ent of business inventories were "temporary."

For the record, the Fed says the most probable out- me for 1996 economic growth—using the new chain- eighted GDP—is in the range of 2% to 2¼%, with able inflation and unemployment (table). With first-quarter growth widely expected to be weak, the forecast implies growth well above that range later in the year. Greenspan said that imbalances that typically precede recessions did not appear to be present, and that financial conditions support spending.

Greenspan's seemingly upbeat comments sent the financial markets falling flatter than a mobile home in a tornado on Feb. 20. The Dow Jones industrial average dropped 45 points, the fourth daily loss in a row. But bond prices took the bigger hit, as the yield on the 30-year Treasury bond shot up to 6.40%, from 6.24%. The markets believed that Greenspan saw little reason to cut rates further.

THE MARKETS' INITIAL INTERPRETATION, however, may have missed the fine print of the chairman's remarks. In his best Fedspeak, Greenspan appeared to hedge on the side of rate cuts. In the context of future policy decisions, he said that the Fed sometimes feels the need to take out some "monetary policy insurance" when the risks to its forecast fall one way or another.

NATURE WALLOPS INDUSTRIAL ACTIVITY



▲ MONTHLY PERCENT CHANGE
DATA: FEDERAL RESERVE, BUSINESS WEEK

Given weak data and the Fed's own low-inflation forecast, that comment sounds like Greenspan is ready to err on the side of accommodation, and that chances for another rate cut at the Fed's Mar. 26 meeting are still good. It is inconceivable that Greenspan would risk even a near-recession to achieve any further reduction in inflation, especially when he has already admitted that the consumer price index overstates inflation.

Wall Street took a little different view of Greenspan's remarks in the second round of testimony on Feb. 21. Stocks and bonds both rallied, partly because the Fed chairman himself sounded somewhat more open to the idea of further rates cuts than he had the day before.

Greenspan talked a lot about why the potential costs of cutting rates right now are low. The main reason: Structural forces related to rapid technological change and corporate restructuring are reducing inflationary expectations. But he stopped short of endorsing the notion that the economy's maximum noninflationary growth rate had increased, although he did suggest that productivity, the key component of that speed limit, was understated by the data.

For now, Greenspan made it clear that he has, as

ERIC HOFFMANN BW

usual, a close eye on the data. The trouble is, the numbers, which have been tossed about by government shutdowns, strikes, and a blizzard, do more to obscure the outlook than clarify it (chart, page 31). Although there were no blizzards in February, there were frigid temperatures and flooding, so a clear reading may not be possible until April, when March data are released.

Even so, first-quarter economic growth could still end up near zero, giving the economy bears a chance to growl a little louder this spring.

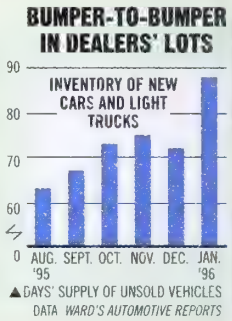
DESPITE THE LOUSY DATA and the first hints of Fed-bashing by the Administration, the numbers still lack the dire look worthy of the panic button. The industrial sector is genuinely weak, led by carmakers' efforts to cut inventories. But it's not as wobbly as the 0.6% drop in January industrial production suggests. A 6.7% plunge in output of cars and trucks accounted for half of the overall decline, while the blizzard very likely stole the rest—and probably more.

To be sure, auto makers will be a big drag on the economy throughout the first quarter. That's because, even with the steep January production cuts, dealers' stocks still swelled to an 88-day supply at the end of the month, up from an already burdensome 72 days in December (chart). About 60 days is normal.

Elsewhere, manufacturing shows some buoyancy. Factory orders rose a strong 1.3% in December, led by a jump in aircraft orders. But even excluding the volatile transportation sector, bookings in the fourth quarter grew faster than they did in the third.

In addition, foreign trade is a plus for the economy. Despite slower export growth, imports have slowed more, and the U.S.-Japanese trade balance dropped again in January. Construction spending, which is likely to get creamed in January, rose strongly in December. And the index of leading indicators in December posted the first increase since August.

When the economy's current period of weakness passes, there is little to prevent it from resuming at least a moderate pace of growth. But with fiscal policy tighter than expected, and possibly on hold until after the November elections, the Fed seems likely to take out some more "insurance," in the form of lower rates.



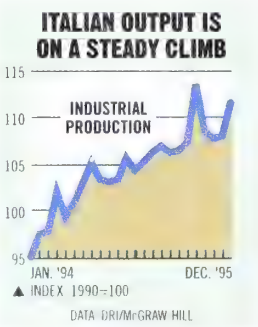
That's why the White House should probably go easy on the Fed criticism, veiled or otherwise. It stands to lose a cordial relationship with the central bank in order to get something it very likely would have received in the first place.

ITALY

POLITICS STEAL THE SPOTLIGHT

Italy's failure to form its 55th postwar government has diverted the financial markets' focus away from economic fundamentals and toward the revolving door that is Italian politics.

Too bad, because Italy has made some progress in taming inflation, pumping up exports, and trimming its public deficit. Using a new basket of items, the consumer price index rose a less-than-expected 5.5% in the year ended in January, and inflation is expected to end 1996 at 4.4%. Thanks to the past weakness in the lira and better growth in Europe, exports have exploded, surging 25% in the first two months of the fourth quarter vs. the year before.



As a result, manufacturing is doing better. Factory orders rose 10.6% in the year ended in November, with domestic and foreign demand increasing. Sales were up 14.6%. Industrial output trended higher throughout 1995 (chart). In December, output increased 3.3% when adjusted for days worked. Export growth is one reason why private economists expected real gross domestic product to rise a modest 2.5% this year.

Now, the outlook harbors more risk. The lira should have continued to rise, helped by a commitment in Rome to cut the deficit to meet the criteria of the Maastricht Treaty. The lira hit year highs of 1,061.6 to the German mark and 1,577 to the dollar when Antonio Maccanico was named Prime Minister on Feb. 1. Since Parliament was dissolved, the lira has weakened to about 1,094 to the mark and 1,583 to the dollar. The stock market has also dropped on fears that Italy will not meet its goal of a budget deficit equal to 5.8% of GDP in 1996, from 7.3% in 1995.

Moreover, the Bank of Italy has made it clear that interest rates will not fall until an acceptable budget is passed. High rates, along with a 12.1% jobless rate, will continue to hamper consumer spending, projected to edge up just 1.7% in 1996. Now, though, any help for Italy's economy as well as progress on the budget will be on hold until the political chaos settles down, yet again.

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THE ECONOMY

ARE YOU BETTER OFF NOW...

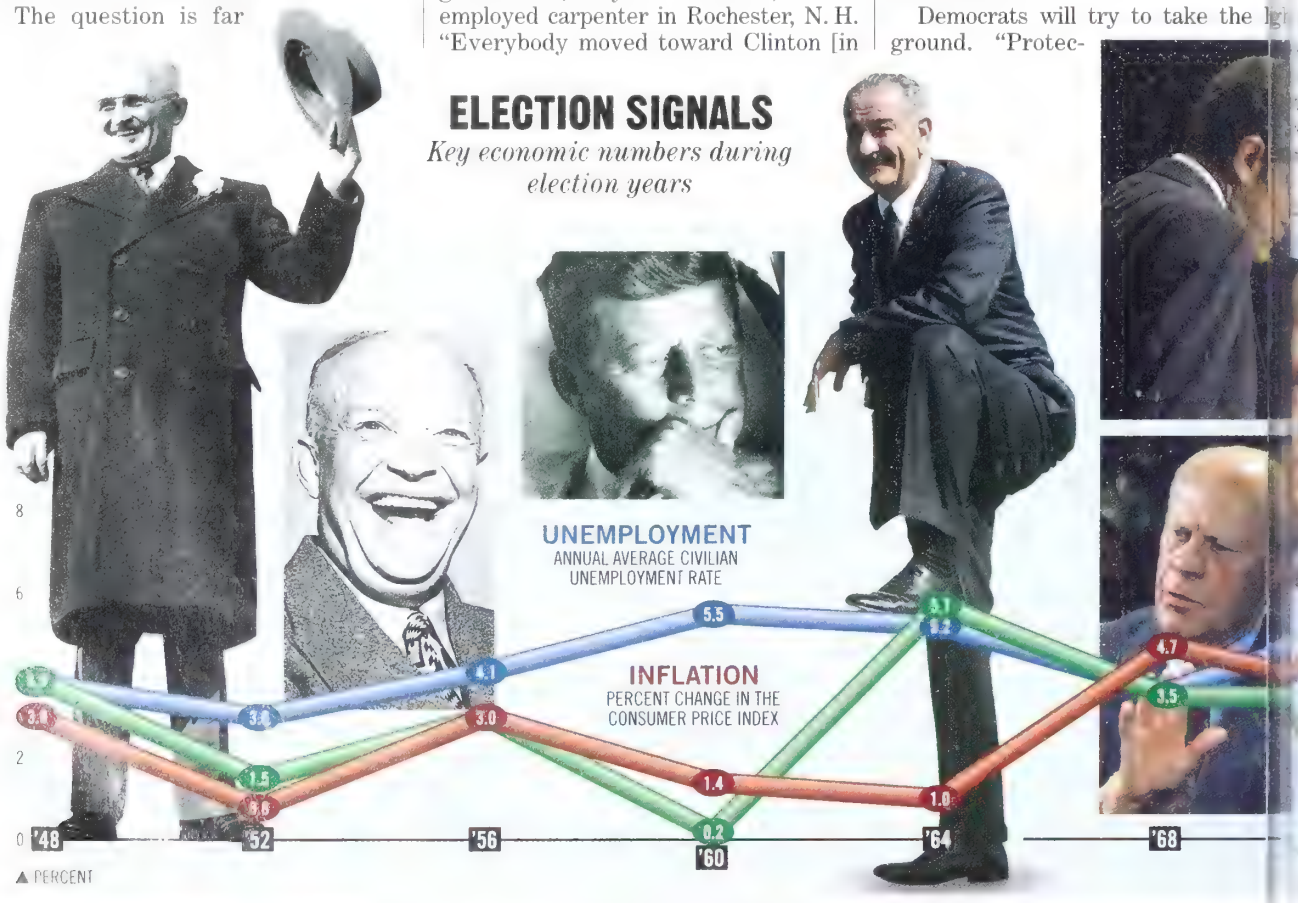
The White House fears voters may not think so

Four years of steady economic growth. Four years of low inflation. Eight million new jobs. All great news for a President running for reelection. So why is Bill Clinton suddenly challenging the Federal Reserve "to see whether or not this economy can grow a little faster"? The frustration the President let slip at a New York fund-raiser on Feb. 15 reflects Democrats' growing fears: The economy may be sound, but it's not strong enough to assure a renewed lease on the White House.

The question is far from academic. Important as politicking is, it's a strong economy that tends to carry a sitting President to reelection. Most forecasters predict the current economy will shake off recent blahs and stay healthy through Election Day. The danger for the Dems is that many voters don't give Clinton credit for the economy's gains—and they don't feel enough progress to overcome anxiety caused by widespread layoffs and wage stagnation. "I was doing very well with my wages—then I got laid off," says Joe Moffett, an unemployed carpenter in Rochester, N. H. "Everybody moved toward Clinton [in 1992], but he hasn't given us anything."

Take note, Clintonites: Moffett voted for Patrick J. Buchanan in New Hampshire's Feb. 20 Republican primary. The populist commentator tapped into a deep vein of economic insecurity and resentment of foreigners to win an upset victory over Senator Bob Dole (R-Kan.). Buchanan's surge, and Dole's belated recognition of voters' economic fears, ensures a rough debate in the GOP over the growing wage gap—and a strong appeal to disaffected middle-class voters.

Democrats will try to take the high ground. "Protec-



ɔnism and nativism will take us back-
ards," says Labor Secretary Robert B.
eich. Clintonites will stump for even
ster growth, urging Fed Chairman
lan Greenspan, who is likely to be re-
ɔpointed, to cut interest rates. And
ey'll trumpet policies that address vot-
s' anxieties by bolstering workers' skills
ıd training and by pushing Corporate
merica to shrink the
ıge gap. "That's what
e 1996 election is all
ɔout—whether wages
ill grow or stagnate," Vice-President
l Gore told the AFL-CIO Executive Com-
ittee on Feb. 19 during its annual
eeting in Bal Harbour, Fla.

ELECTION '96

ıORT LIST. On the face of it, Clinton
ıs some advantages. He's the first
resident since Lyndon B. Johnson in
)64 to run without a recession on his
cord. Most economists—from Green-
ɔan to the 52 forecasters polled for the
lue Chip Economic Consensus—see
eady, if unspectacular, growth of 2% to
3% for the year, measured by the new
ıain-weighted method. Exports have
sen a full 25% in the past three years.
he "misery index," summing the 5.8%
ıemploy-
ent rate
ıd the
6% inflation
ıte, is at a 30-
ear low. "The
conomy is going to
ok really good come
ovember," says Allen L.
inai, chief economist at
ehman Brothers Inc.

Those numbers, though, may not translate into votes. Worried Clintonites need look no further than George Bush, who lost to Clinton despite 3.1% growth in inflation-adjusted aftertax income in 1992. That's higher than the 2.2% gain that DRI/McGraw-Hill predicts for this year.

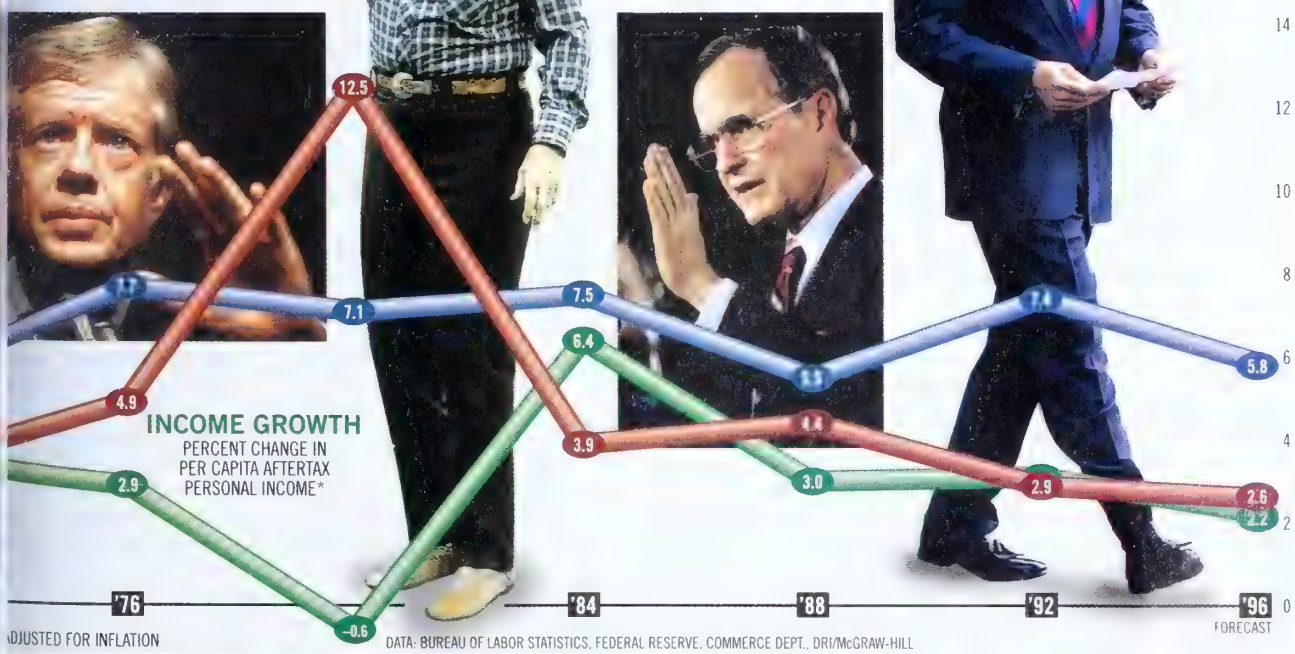
Plugging 1996's anticipated growth and inflation rates into his election-forecasting model, Yale University economist Ray C. Fair concludes that Clinton is likely to come up short, with 49% of the popular vote in a two-way race. The President's problem: The steady plodding of the past four years—roughly 2.4% a year—doesn't grab voters' attention as well as would quarters with gains of 4% or more.

Clinton aides scoff at such economic determinism—but they can't ignore the warning signs. So they're polishing the statistics of what Deputy Treasury Secretary Lawrence H. Summers calls "the first investment-led, low-inflation recovery since John F. Kennedy was President." And to placate nervous financial markets, the White House now favors two moderate economists for open Fed seats: White House budget director Alice M. Rivlin for Fed vice-chair, and St. Louis economic consultant Laurence H. Meyer for the Fed's board of governors.

So far, Clinton has only a short list of proposals for attacking the wage gap: increasing the minimum wage, defending the earned-income tax credit for the working poor, and improving education and job training. The President also is planning a White House meeting with CEOs to discuss the wage gap and what corporations can do about it.

But that's not enough for other Democrats. They're seizing on the theme of "corporate citizenship" to appeal to workers caught in the maelstrom of downsizing. That includes middle managers who normally vote Republican. But the big electoral prize is white men who never went to college. Clinton interrupted a 20-year shift to the GOP when he won 57% of that bloc in 1992. But Democratic support among such men fell to 37% in 1994, largely because they didn't believe the good-news picture of the economy that Democrats painted.

DIVIDED HOUSE. Democrats think they can reach such voters with proposals to encourage companies to reward "stakeholders"—employees and communities—as well as shareholders. Senator Edward M. Kennedy (D-Mass.), with backing from Labor Secretary Reich, in February proposed tax breaks for companies that keep jobs in the U.S. and provide health care, training, and pensions for workers. Senator Jeff Bingaman (D-N.M.) proposes to grant tax breaks and regulatory relief to companies that limit



ADJUSTED FOR INFLATION

DATA: BUREAU OF LABOR STATISTICS, FEDERAL RESERVE, COMMERCE DEPT., DRI/McGRAW-HILL

the pay disparity between top executives and their lowest-paid employees.

Organized labor is pushing the wage issue hard. At Bal Harbour, the AFL-CIO unveiled a new campaign—"America Needs a Raise"—as the cornerstone of labor's organizing and political efforts. Starting on Mar. 15, labor plans to conduct about 30 "town hall" meetings across the country, to discuss income inequality. Still, White House aides say Clinton isn't likely to lead the charge. Treasury Secretary Robert E. Rubin and other top economic advisers dismiss the Kennedy-Reich plan as impractical and too likely to arouse corporate opposition to Clinton's reelection.

Inside the White House, aides are divided. They want Clinton to spotlight his economic achievements. But by describing the economy in glowing terms, the President risks seeming to ignore the economic pain of middle-class America. And if he doesn't see the danger in that, he should pick up the phone and call George Bush for a reminder.

By Mike McNamee in Washington and Susan B. Garland in Bal Harbour, Fla., with Richard S. Dunham in Rochester, N. H.

THE CANDIDATES

NOR'EASTER IN NEW HAMPSHIRE

Buchanan's ascent stuns the GOP–and business

It was five days before the New Hampshire primary, and William B. Lacy, deputy chairman of Bob Dole's Presidential campaign, was upbeat. After a solid, albeit unspectacular, Dole performance in the state's candidate debate, Lacy saw delegates—lots of delegates—in the senator's future. "If we win here," he said, "Dole becomes a charging rhino."

In retrospect, "hobbled hippo" would have been more apt. Dole's defeat at the hands of populist Pat Buchanan has dealt a severe blow to the Kansas senator's Presidential hopes. Buchanan won 27% of the New Hampshire vote, vs. 26% for Dole and 23% for former Tennessee Governor Lamar Alexander.

For Corporate America, which overwhelmingly backs Dole, Buchanan's ascent—and his penchant for jabbing rhetorical pitchforks into the hides of "corporate fat cats"—is troubling. It raises the specter of a GOP civil war that pits mainstream conservatives and social moderates against economic populists and religious fundamentalists. And in Buchanan, executives see a candidate unbeholden to them and uninterested in their priorities.

ELECTION '96

BACKLASH. To further heighten business fears, execs are only now focusing on Buchanan's platform. And they are finding precious little to like. The fiery commentator holds "transnational corporations with no allegiances" responsible for layoffs and stagnant wages. Philip W. Hummer, chairman of Chicago broker Wayne Hummer & Co., says Buchanan will be dismissed by Wall Street. "I don't think the investing world is factoring him in," he says.

Maybe not. But while Wall Street turns up its nose at Buchanan, his ideas are taking hold on Main Street. Business leaders don't consider Buchanan a threat to win the nomination. But they concede that he's shaping the dynamics of the race by ensuring that another Dole misstep could be fatal.

GOP leaders are also less than certain of Dole, particularly after his sleepwalk through New Hampshire. He may win the nomination, says a top strategist. "But there is no passion for Dole." Indeed, GOP leaders fret that a Buchanan backlash could wreck the Republican Revolution. House Speaker Newt Gingrich (R-Ga.) is among the worriers. "Newt has let it be known that the GOP's congressional gains could be in jeopardy if Pat is the nominee," says one conservative strategist.

If anti-Establishment fervor continues to drive the GOP primaries, though, Buchanan won't be the only threat to the erstwhile frontrunner. From the center-left, Dole faces a determined assault by Alexander, who appeals to moderates, independents and younger Republicans. Alexander has lost no time portraying himself as gaining momentum after his strong third-place showing. And his campaign claims he raised $1.5 million this year.

Alexander Finance Chairman Ted Welch will go all out to shake the corporate money tree over the next few weeks. But Alexander doesn't have much time for black-tie dinners. South Carolina's Mar. 2 primary is looming as a make-or-break contest in the GOP's slugfest. "I have to win somewhere," Alexander concedes. But GOP pros doubt that the Tennessean has enough left for the costly contest in the offing.

CORPORATE FAVORITE: *"But there is no passion for Dole," says one strategist*

ODDS ON THE CANDIDATES

FEB. 21		FEB. 13
1:4	BILL CLINTON	1:3
6:1	LAMAR ALEXANDER	10:1
7:1	BOB DOLE	4:1
10:1	PAT BUCHANAN	16:1
25:1	STEVE FORBES	6:1
1:4	DEMOCRATS	
5:2	REPUBLICANS	

DATA LADBROKES

Buchanan, meanwhile, is aiming for ctory in Arizona, which would build) steam for a push into South Carolı. Says GOP strategist Mark Goodin: 'he state has been whipsawed by ant closings and textile imports. ıchanan will play well here." Who-ver Buchanan dispatches in South arolina could be out of contention. He en hopes to wound the surviving cen-ist on Mar. 12 in the Super Tuesday und of Southern primaries.

As Buchanan's guerrilla war rages, ıough, his new stature will focus crit-al scrutiny on his economic program, strange brew of conservative supply-de notions and liberal calls for eco-ɔmic democracy. Buchananomics starts ith an endorsement of a balanced ıdget and a flat income tax. But uchanan's 17% flat rate retains de-ıctions for home-mortgage interest ıd charitable contributions, making it ıuch more expensive than a less gen-ous House Republican plan that some conomists consider a $140 billion rev-nue-loser. Adding to the cost, he ex-mpts small business from taxation.

IVIL WAR. Buchanan wants to withdraw ıe U.S. from the World Trade Organi-ıtion and ditch both NAFTA and the eneral Agreement on Tariffs & Trade. hen he would sock Asian imports with rotective tariffs ranging from 10% to 0%. "We'd be heaping taxes and more ıxes upon consumption," says William . Gale, a Brookings Institution econo-ıist. Buchanan's trade ideas are "very isturbing," adds William Niskanen, a ɔrmer Reagan economist who heads the 'ato Institute.

So what's a worried Establishment ɔ do about the Buchanan surge? Most kely, rally to Dole and press Alexan-er for a gentlemanly fade-out if he ontinues his third-place showings. "Ei-her Dole or Alexander has to get out f the race soon or Buchanan's one-hird base will win out over two candi-lates who are splitting the remaining wo-thirds," says Republican consultant 'homas Edmonds. "Lamar is the most ikely to bow out, perhaps with a deal or the Vice-Presidency. Otherwise, ou'll start hearing the words 'Jack Kemp' and 'brokered convention.' "

Civil war? A backroom deal for the Vice-Presidency? Brokered convention? Can this be the same GOP that thun-lered to majority status in the 1994 lection? Unfortunately for Republi-ans, the answer is yes. "It's a real ɔummer," says Edmonds. Nearly everybody in the party but a mania-ally grinning Pat Buchanan would ıgree.

By Lee Walczak in Washington and Richard S. Dunham in Nashua, N.H., with Howard Gleckman in Washington

COMMENTARY

By Keith H. Hammonds

AMERICA'S HATE AFFAIR WITH BIG BUSINESS: WHAT CAN BE DONE

What's going on here? Did someone paint a big bull's-eye on Corporate America and invite Republicans to take target practice? There was right-wing demagogue Pat Buchanan, inciting the New Hampshire masses by pillorying "these cold-blooded characters with the green eyeshades." It was a good line, too good for Bob Dole to resist: The erstwhile champion of free enterprise suddenly condemned the evils of corporate profits and layoffs. Within days, *Newsweek*'s cover brought us mug shots of "Corporate Killers."

Populism took on Big Business in New Hampshire—and won handily. Buchanan's first-place finish was no overwhelming mandate against the free-market system, but it did demonstrate that the nation's growing distrust of business resonates. Workers feel little security. They resent sluggish wage growth. They fear for their kids' futures.

Are they justified? Sure, AT&T is cutting 40,000 jobs—perhaps the most politicized restructuring ever. But the expanding economy keeps creating new employment, month after month, for a total of 8 million jobs in three years. The unemployment rate has fallen to 5.6%, half the level of Europe. Inflation is less than 3%, and the "misery index" popularized by Ronald Reagan is lower than when he was President.

DEMONIZATION. More than that, the U.S. economy has fared well in an extraordinary time of transition. The technology revolution and globalization of markets have, in a decade, rewritten the rules by which business operates. Yet American business continues to innovate and improve productivity. Exports are booming. Silicon Valley has not picked up and moved to Japan. Real wages are rebounding, and the U.S. standard of living continues to rise.

Still, the demonization of Big Business persists. In part, it's a misunderstanding of business' role. Companies don't exist to create employment; rather, jobs follow an effective strategy for making money. "The function which we should expect from the private sector, to create the goods and services we need and want, is a function that it is indeed fulfilling," says John M. Hood, president of the John Locke Foundation, a free-market think tank.

Layoffs appear especially arbitrary and cruel when employers fail to explain the strategy behind them. Even the most cogent corporate rationalizations, though, will lack relevance for the New Hampshire workers seduced by Buchanan's protectionist promises. Their pay continues to decline, falling further behind that of better-educated employees in high-wage occupations. The result: "banana republic politics" that increasingly divide poor from rich, says Marc Tucker of the National Center on Education & the Economy.

Protectionism will only make things worse; surely we can't bring back jobs in textiles and shoes. Rather, low-skill workers have to retool themselves for a high-skill economy—and business should help. Raychem Corp., for one, offers employees job training even if the new skills lead to jobs in other companies or industries. In short, if companies can't guarantee employment, they ought to guarantee employability by providing training.

Here's one more suggestion, perhaps the most important: Share the sacrifice. Reduce pay of top executives and directors at companies that ax workers. And why not fire the CEOs whose strategic backfires lead to layoffs, as was the case at AT&T? Business needs the freedom to restructure and become more efficient. But it also must have the gumption to take on its share of the risk and help workers through the transition. Otherwise the New Hampshire backlash can only get worse.

Hammonds tracks social issues for BUSINESS WEEK.

STRATEGIES

GM'S MAN IN MERGING TRAFFIC

Roy Roberts has a tall order: Fuse GMC and Pontiac

Roy S. Roberts is used to plunging into tough situations at General Motors Corp. In 1987, he became GM's second-ever black vice-president and proceeded to sweep out 40,000 jobs. He later stunned insiders by leaving GM for Navistar International Corp.—then making an unlikely return that revived his career.

Now, Roberts, 56, is charged with steering the tricky merger of the Pontiac and GMC divisions. That consolidation, announced on Feb. 20, is a key step in GM's drive to streamline its 8,500-strong dealer network. And Roberts, who has headed GMC since 1992, is one of the lead executives. "We've done a lot of planning, but now it gets down to execution," says marketing chief Ronald L. Zarrella.

In merging the two divisions, Roberts likely will have to cut overlapping jobs in marketing and sales, as well as eliminate scores of stand-alone Pontiac and GMC dealerships. But the onetime factory worker, whose candor and charisma stand out at GM, thinks he can convince even those hurt in the process that GM can only prosper if it can radically change. "I never minimize the people side of the business," he says. "That's one thing I learned as an hourly worker, a UAW member, and an employee coming up through the ranks."

EBULLIENT. One factor in Roberts' favor: Merging the two units makes good business sense. GMC's pickups and sport-utility vehicles complement Pontiac's sporty car lineup. And nearly 60% of Pontiac franchises are already sharing space with GMC dealerships. Combining the two should let GM cut some 600 sales and marketing jobs, says Lehman Brothers Inc. analyst Joseph S. Phillippi. Adds Roberts: "If we can get some of the clutter out of the system... the dealer can spend his or her time taking care of the customer."

Roberts' new empire sold 1 million vehicles last year—and could expand. Frank Ursomarso, a Pontiac-GMC dealer in Union Park, Del., who co-chaired a GM committee studying dealer issues, says "a logical extension" of GM's streamlining strategy would be to add Buick to GMC and Pontiac. Zarrella denies any such plans in the "near term."

Roberts acknowledges that he's "feeling the heat" of his new position. But his ebullient personality should serve him well. "I always said Roy should be a gospel minister," says John Peterson, a GMC dealer in Bloomington, Minn. "He would have kept the churches full all the time."

Roberts has kept his own spirits high through some tough times. Born in Magnolia, Ark., he was one of 10 children. His mother died when he was 2 years old. His father moved the clan to Michigan, where Roberts began working on the assembly line at an aerospace plant after graduating from high school. In 17 years, he rose from factory worker (and union steward) to plant-management positions. In the evenings, he commuted 120 miles to Western Michigan University, where he earned a degree in business administration. "Roy and I grew up in an era where there was no substitute for a great work ethic," says Detroit Mayor Dennis W. Archer, a friend and college classmate of Roberts'.

SHOCKERS. Roberts joined GM in 1977 as a trainee in its diesel-equipment division and quickly went on to manage several factories. He was plucked from relative obscurity to become vice-president for personnel in 1987. The move shocked GMers—though no more than Roberts' decision a year later to leave to head the truck unit at Navistar, where he felt he had a chance to become CEO. But production problems dogged him there. He welcomed the chance to return to GM in 1990, to a lesser post as Cadillac manufacturing chief. Under him GMC has had three straight record years, selling 462,000 trucks in 1995.

Roberts has also distinguished himself as Motown's most visible black auto exec. Yet he knows he's still watched closely. When the exclusive Bloomfield Hills Country Club rejected him for membership in 1994, many Detroiters were outraged at what they perceived as a racial slur. GM Chief Executive John F. Smith Jr. and J. Michael Losh, chief financial officer, quit in protest, though other GM execs stayed. Roberts never publicly criticized the club. Maybe he's figured his success speaks for itself.

By Bill Vlasic and Kathleen Kerwin in Warren, Mich.

ROBERTS' RULES "I never minimize the people side of the business. That's one thing I learned as an hourly worker..." — ROY ROBERTS

A MID-'60s MAINFRAME: *IBM is reducing its reliance on Big Iron*

STRATEGIES

IT'S HOT! IT'S SEXY! IT'S...BIG BLUE?

IBM is acting like a high-growth stock

Move over, Netscape. Step aside, Pixar. IBM is suddenly looking like the hottest tech stock in town. ince Jan. 15, the computer giant's share rice has skyrocketed 42%, to around 119. And that could be just the start. ome on Wall Street are betting IBM's hares will hit $140 before yearend.

Why the Big Blue runup? IBM is suddenly facing some of its best growth rospects in years. In January, the comuter maker reported that its fourthuarter earnings shot up 39%, to $1.7 illion, on a revenue rise of 10%, to 21.9 billion. For all of 1995, earnings ımped 38%, to $4.2 billion, while revenues zipped up 12%, to $71.9 billion. That's revenue growth this company asn't seen in 10 years," crows Chief 'inancial Officer G. Richard Thoman.

Behind the euphoria is investor confi.ence that IBM Chairman Louis V. Gerstner Jr. is finally weaning the comıany from a too-heavy reliance on slowrowth products. IBM figures that 57% of ts revenue last year came from such igh-growth segments as personal comıuters, software, and services—and that hose businesses expanded at a 19% rate. Meanwhile, the revenue share of old-line technologies is shrinking by three percentage points a year.

Big Blue is even doing its level best to become an Internet play. By far, its stellar performer is its $12.7 billion services business, which is expanding at a 30% clip annually. IBM sells corporate customers all sorts of consulting assistance, from managing networks of PCs to outsourcing entire computer operations. To boost the business even further, IBM late last year created a division to build Internet products. And on Feb. 20, the unit introduced software programs IBM hopes will transform its mainframe and mid-range computers—and all the corporate data stored on them—into powerful Web "servers." "It will be our ability to help our customers unlock their data that will be our advantage," says Thoman.

Even IBM's aging core businesses are on a roll. Mainframe sales fell off a cliff in 1991, after peaking at about $12 billion. In the past two years, sales of such machines have stabilized at around $7 billion annually. Plus, as companies realize PCs are far costlier to operate than once thought, IBM's mainframes are finding renewed demand—firming margins by making heavy discounting a thing of the past. What's more, IBM moved to new, cheaper-to-make machines based on PC-like microprocessor technology ahead of competitors Amdahl Corp. and Hitachi Ltd. Those rivals will not have competitive mainframes until the second half of 1996.

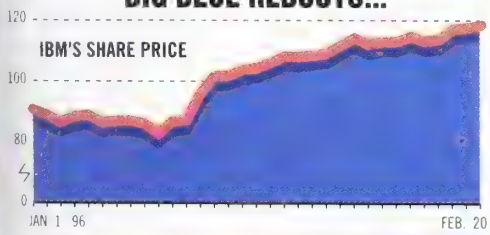
SOFTWARE BET. Other formerly problem-plagued businesses are turning around for IBM, too. Sales of disk-storage devices used with mainframes are up. And a product transition in the highly profitable AS/400 minicomputer line should pick up this year as new models become available. Even the once troubled PC business is coming around. By focusing on higher-margin products, such as high-end home PCs, IBM has rebounded. Merrill Lynch & Co. analyst Daniel Mandresh figures the PC business edged into the black last year, turning a $100 million profit on sales of about $10 billion.

IBM isn't completely out of the woods. Analysts figure Gerstner may try to cut costs, mainly overseas, by another $600 million this year, raising the specter of a write-off. Gerstner's big bet on software also has yet to pay off: In 1995, he plunked down $3.5 billion for Lotus Development Corp., and he recently spent another $743 million for little-known Tivoli Systems Inc., a developer of software to manage computer networks.

For 1996, Wall Street estimates that IBM's revenue will expand by 6%. Insiders say the chairman is demanding a 10% increase. If he gets what he wants, there could be plenty of upside still to IBM's stock.

By Ira Sager in New York

BIG BLUE REBOOTS...



DATA: BLOOMBERG FINANCIAL MARKETS

...AS ITS SALES MIX SHIFTS

DATA: COMPANY REPORTS

DRUGS

DRUG PRICES: SO MUCH FOR RESTRAINT

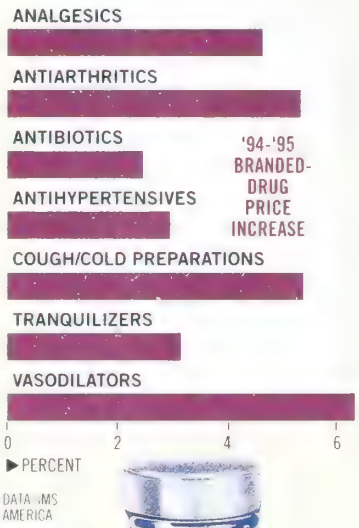
Manufacturers are ratcheting them up, and retailers are livid

Just three years ago, Hillary Rodham Clinton had drugmakers quaking at the threat of price controls. With health-care reform looming, some 18 big companies vowed publicly to rein in increases. Now, the First Lady has retreated from policy issues, health reform is comatose, and drug prices are climbing again—some far faster than inflation. The drug companies, complains Philip A. Brill, a pharmacist in Wynnewood, Pa., "are gouging us."

How rapidly prices are increasing is a matter of debate. The PRIME Institute at the University of Minnesota College of Pharmacy reckons that producer list prices for the 500 most-prescribed drugs, mostly brand-name medicines, climbed an average of 4.6% in 1995, with much of the rise coming in the fourth quarter. The Bureau of Labor Statistics pegs the yearlong rise at 4.2% by one producer-price yardstick, 3.7% by a broader measure. And the IMS America tracking service, drawing on a 20,000-product list, says producers charged about 3.3% more for brand-name drugs. Whatever the exact numbers, many drugmakers raised prices for prescription drugs well above 1995's 2.5% rise in consumer prices—even though they had pledged to limit overall increases to the change in the CPI.

"GOOD-FAITH EFFORT." Industry critics charge that drugmakers have broken their word and reverted to their old ways. "It's a direct result of the fact that Washington is no longer watching them," says Michael G. Bronfein, head of the 21-store NeighborCare Pharmacies Inc. chain in Baltimore. Prices have climbed steadily, says Ronald L. Ziegler, chief of the National Association of Chain Drug Stores (and former Nixon Administration press secretary), "since the focus on drug prices diminished with the end of national health-care reform efforts by the Clinton Administration."

Drug-company executives will not comment directly on the price increases, leaving spokesmen to respond. But they argue that their companies have been restrained in their pricing. Pfizer Inc. points out that while it has raised the price of its Norvasc cardiovascular drug, its biggest seller, by 4%, it has lowered the price of antibiotic Zithromax, a smaller but fast-growing drug, by nearly 26%. Pfizer's overall price hikes averaged 2.9%, only slightly more than consumer prices. "We made a good-faith effort," says a spokesman, who adds that the company just figured wrong on how low inflation would be.



Bristol-Myers Squibb Co. and Merck & Co. also insist they've kept price increases moderate. Merck, in fact, says that it kept its pledge—to raise its price more than 1% above the projected inflation rate—but overestimated the rate. Still, Merck's overall prices rose just 1%.

Besides, industry defenders argue "modest" hikes are justifiable. The Pharmaceutical Research & Manufacturers trade group says companies will boost research spending 9.6% this year compared with 6.9% last year and 5.6% in 1994. Moreover, price slides in generic drugs have offset some of the increase in branded-drug costs: The Bureau of Labor Statistics says overall drug prices for consumers rose just 2% last year, while IMS America says it was just 1.7%.

DISCRIMINATION? Given the climate in Washington, it's hardly surprising that drugmakers feel free to raise prices. Industry critics such as former Senate Aging Committee Chief David H. Pryor (D-Ark.) lost leadership posts when the GOP took over Congress in the last elections. Pryor is quitting at yearend. An aide to a congressional Democrat and longtime drug-industry critic adds sadly: "We're out of the legislating business." While drugmakers "have not lived up to the standard they set for themselves," the GOP-controlled Congress has no appetite for forcing them to change, charges Tricia Smith, chief federal health lobyist for the American Association of Retired Persons.

One group, however, wants to keep drugmakers in the hot seat. Retail pharmacists, angry that they pay more for drugs than managed-care buyers who command discounts, have been fighting manufacturers in court for more than two years. The pharmacists charge that drugmakers discriminate in pricing, unfairly burdening pharmacies and cash-paying customers while giving breaks to hospitals and HMOs. While part of that battle may be settled with about $40 million parceled out among thousands of pharmacies, the fight continues for some members of the National Association of Chain Drug Stores. Washington may be stepping out of the fray, but the pharmacists, at least, aren't about to forget old promises.

By Joseph Weber in Philadelphia

A driver's dream.

A hairdresser's nightmare.

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SAAB

DEALS

A BLARE OF RADIO MERGERS

Telecom reform sets off a frenzy of station-buying

Most nights, disk jockey Cousin Brucie does shtick and golden oldies for the New York region on WCBS-FM. By day, his alter ego, Bruce Morrow, gets his kicks on the other end of the microphone: Morrow is chairman of Multi-Market Radio Inc. (page 94), an up-and-coming player in the new game of gobbling up radio properties. "I'm a lucky guy," he says. "I get to have fun on both sides of this business."

After years of taking a backseat to their TV brethren, radio-station owners suddenly find themselves with hot properties. Advertising rates and listener levels have been rising—along with stock-market values. But the real payoff came when restrictions were lifted on the numbers of stations a single company may own in one market. Now, consolidation is rampant: Just since Jan. 1, more than 80 radio stations have changed hands, for a total of nearly $2 billion (table).

HEFTY PRICES. The starting gun sounded as Congress was completing the telecommunications bill, which eliminated national ownership limits and allowed a company to own as many as eight stations in a market. Until then, the maximum was two AM and two FM stations, which kept buyers cautious and prices low. Now that buyers can sharply expand their reach, even the worst-performing stations command hefty prices. On Feb. 14, when Dallas' Chancellor Broadcasting Co. completed its $395 million purchase of Shamrock Broadcasting Inc.'s 17 faltering stations, it paid roughly 20 times cash flow—close to twice what healthy stations sold for a year earlier.

Station owners say even those prices are justified because consolidation helps them spread overhead costs around. Just adding a second station can cut 25% in costs the first year, figures chairman Robert F.X. Sillerman, whose SFX Broadcasting will grow to 51 stations in 15 markets after agreeing to pay $105.3 million to Prism Radio Partners for 16 more.

Owners also are eager to buy stations because it lets them offer advertisers a bigger share of listeners—at a higher price. Stations can offer "young kids with rock and roll, women with talk, all kinds of demographics," says Scott Ginsburg, chairman of Evergreen Media Corp., which owns 35 stations and has 27 in the top 10 markets. In January, his company closed a $306.5 million deal to buy 12 stations from Pyramid Communications In

COUSIN BRUCIE: *Also looking for hits on the business side*

MAKING RADIO WAVES

JAN. 18 Evergreen Media closes a $306.5 million purchase of 12 stations from Pyramid Communications

JAN. 22 Infinity Broadcasting completes purchase of seven radio stations owned by Alliance Broadcasting for $275 million

FEB. 5 Jacor Communications agrees to buy Noble Broadcast and its seven stations for $152 million

FEB. 12 SFX Broadcasting agrees to buy Prism Radio Partners' 16 radio stations for $105 million

FEB. 13 Jacor signs a definitive agreement to acquire Citicasters and its 19 radio stations and two TV stations for $770 million in stock and cash

FEB. 14 Chancellor Broadcasting completes a $395 million deal for Shamrock Broadcasting's 17 stations

DATA: BUSINESS WEEK

Even before the wave of consolidati began, ad rates were moving high Since 1992, increases have averaged 9 a year, according to industry analys BIA Consulting in Chantilly, Va. But f operators who owned two stations in single market, rates outstripped those f other stations by 10%, says analyst J Duncan of Duncan's American Rad Inc. "As those markets consolida more, the numbers will go up," he sa

MIDSIZE-MARKET RUSH. Not everyone happy about the changes, of cours "It's great. Just great," says a sarcas Jon Mandel, senior vice-president a director for national broadcasting Grey Advertising Inc. "Monopolies a against the law—unless the FCC is volved." Now, says Mandel, the nu bers favor the suppliers broadcast time. "This used be a supply-and-demand gan Now, they're eating up t supply."

The buyouts likely will co tinue. Oppenheimer & Co. a lyst Edward J. Atorino sa companies have publicly rais more than $1 billion in the p year to go shopping. Alrea radio has attracted big-time vestors. Samuel Zell is a 7 owner of Jacor Communi tions Inc., which will cont more stations than any oth company after a pair of de in February valued at $82 million. Dallas venture-capi firm Hicks Muse Equity vestment launched Chancel in 1993 to buy stations in largest markets. Chancel which owns 34 stations, j raised $200 million in an ea February initial public off ing. Principal Tom Hicks s he will soon start a new co pany to buy stations in m size markets.

The rush of fresh money no doubt keep the sales co ing—and the prices up. Th days, even small and mids markets like Tucson are st ing to draw attention. And t suits Bruce Morrow just f His company, an associate Sillerman's SFX, owns 24 s tions in such midsize mark as Providence and Hartfo and it's looking to add m Now that, says Cousin Bru sounds like real fun.

By Ronald Gr in Los Ang

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TECHNOLOGY

A STAR IS MORPHED

Digital Domain's special effects outgrow the movies

When this year's Oscar nominations for visual effects were handed out on Feb. 13, little-known Digital Domain Inc. grabbed center stage. The company nabbed its second nomination in a row, for the effects in *Apollo 13*. So realistic was the movie's Saturn 5 launch sequence that even some astronauts mistook it for file footage.

In just three years, Digital Domain has zoomed to the top ranks of Hollywood's special-effects biz, where it now vies with leader Industrial Light and Magic (ILM). Feisty Digital Domain, though, is just getting started. On Feb. 12, it showed its first CD-ROM, *Barbie Fashion Designer*, developed jointly with Mattel Inc. The product allows kids to design and make doll clothing. Then, on Feb. 21, Cox Enterprises Inc., the nation's fifth-largest cable-TV operator, announced that it will pay an estimated $50 million for a one-third stake in Digital Domain.

PAY DIRT: *Efforts afield inclu beer ads, CD-ROMs for kids*

The two events signal Digital Domain's intent to branch out. Until now, special-effects houses mainly have done contract work on movies and commercials. But Digital Domain hopes to become a "content provider," creating and selling its own products and characters —a business it thinks will soar with the advent of interactive entertainment via home PCs and TV sets. Hooking up with Cox, says CEO Scott Ross, "should put us out in front of the pack."

Digital Domain is the brainchild of Ross, who formerly headed ILM, director James Cameron, who create the molten-metal man of *Te minator 2*, and veteran mode maker Stan Winston, famo for *Jurassic Park*'s dinosaur The fourth founder is IB which paid $20 million for 50% stake; after the Cox de it will own a third.

ARNOLD, TOO. Digital Doma worked on a raft of movies d out this year, including the ho ror flick *The Island of Dr. Moreau* and Keanu Reeves thriller called *Chain R action*. Its TV ad business also is boo ing. The computer-generated ants th make off with cans of Budweiser in ongoing series of ads are Digital D main's creatures. It's also doing ads f AT&T's Summer Olympics campaign.

Meanwhile, Digital Domain is chur ing out new products. For one, *Term nator 2-3D*, a theme-park show starri Arnold Schwarzenegger that opens M 15 at the Universal Studios Florida pa in Orlando. And IBM commissioned tv CD-ROMS, due for Christmas releas Lights! Camera! (Digital) action!

By Larry Armstrong in Los Angel

THE INTERNET

BLOOD ON THE YELLOW PAGES

Competition heats up to put the directories on the Web

Kris Hagerman, 31, wants to revolutionize the $10 billion yellow-pages market. On Feb. 26, his company, Big Book Inc., will launch a service on the World Wide Web listing addresses, phone numbers, and business descriptions for 11 million U.S. businesses. It will also let viewers assign quality ratings to merchants as a guide for fellow shoppers, find stores within a specified radius of any location, and scan in-depth cultural guides to major cities.

Sounds revolutionary, right? But just to survive, Big Book will have to hit the ground running. A major battle is breaking out in the nascent online yellow-pages market. U S West Inc. has just launched a Web-based directory of businesses in the Boulder (Colo.) area, the first of a series it plans for 14 states. In March, Nynex Corp. will add new technology to its Web-based national yellow pages and start a major sales push. In April, GTE Corp. plans the official launch of its national SuperPages directory, also on the Web.

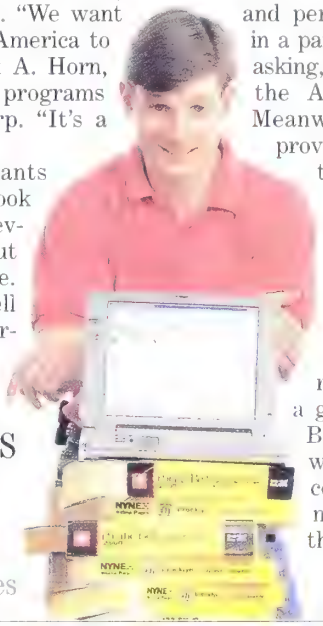
The stakes could be huge. These directories may be the future gateways to all kinds of electronic commerce services. And they could serve as the on-ramp into cyberspace for the country's 9 million small businesses. "We want to wire small-business America to the Web," says Deverix A. Horn, director of new media programs at GTE Directories Corp. "It's a massive opportunity."

The cost to merchants will vary widely. Big Book will let merchants list several pages of text about themselves at no charge. For revenues, it will sell space to national advertisers. GTE plans to charge listers $300 to create a simple Web display within its directory, plus $50 month for "hosting" the data in GT computers. Nynex will also charge me chants to list, but those who pay pr miums will get top billing when a W surfer calls up a list of, say, pizzerias Pasadena.

LOGOMANIA. The new directories w also compete on supplemental servic GTE will let consumers send E-mail and perhaps faxes—to merchar in a particular business category asking, for example: "Do you ha the Acme ray gun in stock Meanwhile, all the yellow-pa providers are scrambling to g their logos prominently d played at the Web's m popular sites, such as W directories and Netsca Communications Corp home page.

Electronic yellow pag will never help a ch reach the dinner table fr a grownup's chair. But if B Book and others have th way, many adult consum could soon be letting th mouse, not their fingers, the walking.

By John W. Ver in New Yo



BIG BUCKS/BIG BOOKS
The yellow-pages market is worth $10 billion, and Hagerman's service alone will list 11 million businesses

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EDITED BY KELLEY HOLLAND

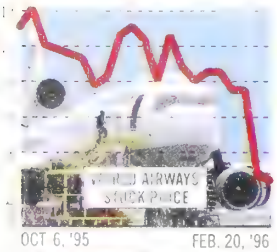
LEBOW: 2 NABISCO: 0

CHALK UP ROUND ONE FOR Bennett LeBow. By tiny majorities, the chairman of Miami-based Brooke Group says it persuaded RJR Nabisco shareholders to back two proposals: a nonbinding plan to spin off the food company and a provision making it easier for shareholders to call special meetings. RJR says the true results won't be known until it can independently count Brooke's ballots. LeBow, meanwhile, is vowing to wage a proxy battle for RJR. He has proposed a management slate that includes Ronald Fulford, who resigned on Feb. 21 as executive chairman of Hanson PLC's Imperial Tobacco, as CEO, and Dale Hanson, former head of the California Public Employees' Retirement System, as a director. While LeBow faces skepticism from some RJR shareholders, he only needs a majority of votes cast in a proxy contest to win.

CLOSING BELL

PAIRED IN THE AIR

World Airways got a much-needed boost on Feb. 19 when it sealed a marketing pact with Continental Airlines. The Herndon (Va.) carrier now has access to Continental's New York hub, as well as to its formidable marketing forces. And Continental can tap World Airways' valuable route rights to Israel and, eventually, South Africa. The deal could not have been better timed: World announced a $1.6 million fourth-quarter loss on Feb. 16, well below forecasts. That sent its stock down some 26%.



CAN MK REENGINEER ITS DEBT?

IT'S PASS-THE-HAT TIME AGAIN at Morrison Knudsen. The struggling engineering and construction company hopes to persuade debt holders to swap their interests for new equity. MK executives are confident they can meet a $25 million payment on Mar. 31, but $100 million due in September and $114 million more due in December will be tougher. And unlike earlier restructurings, when they worked with banks, MK execs will be negotiating chiefly with the vulture investors now holding the debt, valued at 60¢ on the dollar.

MICROSOFT: THE INFO ROAD AHEAD

MICROSOFT WANTS TO BE perfectly clear: It's not ignoring the Internet. On Feb. 20, the software giant, often criticized for being late to recognize the Net's potential, created an Internet Platform & Tools Div. to be run by Brad Silverberg, the Microsoft exec who honchoed Windows 95. "I've always been excited about being where the action is," he says. "This is it." Microsoft also created an Interactive Media Div. to be headed by Patty Stonesifer, former head of the Consumer Div.

A LITTLE MERRIER AT MERRILL

IT'S BEEN A GOOD WEEK FOR Merrill Lynch. In Massachusetts, Merrill Chief Executive Daniel Tully persuaded State Treasurer Joseph Malone to lift a sanction that banned Merrill from managing state-bond refinancings, imposed after Merrill failed to disclose a fee-splitting arrangement with Lazard Frères' Mark Ferber in 1994. Merrill also got a break in California's Orange County, which is suing it for $2 billion. A federal judge issued a ruling making it harder for the county to blame its bankruptcy on Merrill, which sold Orange County most of the financial instruments in its portfolio.

HEADLINER: ERIC PFEFFER

GOT MY HOJO WORKIN'

When boomers recall overnight stays and fried-clam dinners at Howard Johnsons, they get warm and fuzzy—then go elsewhere. HoJo President Eric Pfeffer's answer: spiff up the 42-year-old outfit, starting on Feb. 16 with a new mostly-blue logo. Orange roofs? They're on the way out. Says Pfeffer: "As we change with the times, we've got to show the newness."

Sure, the orange roof is "an American icon—as American as apple pie and Chevrolet," the Venezuelan-born Pfeffer says. But HoJo, owned since 1990 by franchiser HFS, no longer requires orange on new properties and does not object if existing roofs are replaced. Indeed, it only hints at them in the new logo, which Pfeffer says "reduces the emphasis on orange by 300%."

Pfeffer, who in 19 years has risen from the front desk at HoJo's Miami hotel to the executive office, is striving to upgrade the chain. He kicked out 37 hotels in 1995 for quality shortfalls, and he's taking the company global. Not everything is changing: Fried clams are still on the menu.

By Joseph Weber

GIBSON SAYS, 'NO VALENTINES, PLEASE'

GIBSON GREETINGS HAS wrapped up its association with Benjamin Sottile, whose time as CEO was racked by a series of problems ranging from customer bankruptcies to derivatives losses to inventory overstatements. The company named Directo Albert Pezzillo temporar CEO. Cincinnati-based Gibso which had put itself on th block last July, also said was no longer for sale be cause it "had not received a appropriate offer." But Gi son's announcement has n fazed American Greetings, i much larger rival. Gibson r buffed American last sun mer, but American says would still like to work wit Gibson management to bu the company.

ET CETERA . . .

- Richard Holbrook, Bosni peace negotiator for Clinto is joining CS First Boston.
- H&R Block split off its ta preparation division from it CompuServe unit.
- Digital Equipment term nated its computer-chip joi venture with Cirrus Logic.
- Delta Air Lines pilot agreed to a 2% pay cut bu won a board seat.

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DITED BY OWEN ULLMANN

'AT BUCHANAN, 3UDGET MOTEL GUERRILLA

He flies coach, often with just his wife and a single aide in tow. He writes his own TV commercials. His shoestring campaign lacks pollsters, opposition researchers, and ıost of the other trappings of the modern political operation. ɔ get his message out to America's angry and anxious, he re- es on radio talk shows and cable-TV interviews—alternative ıannels that, he frequently and publicly boasts, permit him ı "fly under the radar screen" of conventional politicians.

It's all part of the persona of hot new penny-pinching pop- ist, Pat Buchanan. While GOP Presidential rivals travel with mies of apparatchiks, Buchanan has put together a low- ıdget operation that's giving his better- ıanced foes fits. "He's like Stonewall ıckson. He can live off the land with s merry band of guerrillas," says L. rent Bozell III, chief fund-raiser for uchanan's 1992 Presidential bid.

Buchanan's surprising show of rength has stunned the political Es- ıblishment, which was convinced that ıoney and organization would talk loud- than ever in the '96 primary sprint. ut Texas Senator Phil Gramm flamed ıt despite an impressive $21 million ankroll. Steve Forbes has gotten little ɜturn on his $20 million-plus investment. And Senate Majority eader Bob Dole learned that having $26 million, the biggest aff, and the most endorsements doesn't guarantee victory.

N THE FLY. For Buchanan, low-budget campaigning is a badge honor. Headquarters tend to be in low-rent—occasionally ımshackle—offices. He does printing at Kinko's, buys supplies Wal-Mart, and gets pizza from Domino's (whose CEO, Thomas onaghan, is a big backer). And his tiny inner circle is limited ı wife Shelley; sister Angela "Bay" Buchanan, his chief advis- ; campaign manager Terry Jeffrey, a former newspaper edi- ırial writer; and communications director Greg Mueller.

Buchanan spent a mere $7.1 million in 1995, reports the Federal Election Commission. That compares with $16 million spent by Dole, $18 million by Forbes, and $11 million by former Tennessee Governor Lamar Alexander. But the former conservative commentator is nimble. Case in point: The morning before the Feb. 20 New Hampshire contest, Buchanan was preparing for a radio interview when the station aired a Dole ad attacking him as extremist. Buchanan wrote an in-your-face response on his laptop computer, and within hours, his new radio ad calling Dole "a desperate man" was airing.

Buchanan is also an adroit user of free media. Aware that most Republican voters are talk-radio listeners, the onetime radio talk-show host breezed through more than a dozen live interviews on New Hampshire primary day.

RADIO INTERVIEW: *From Campaign Central*

GROUP CHATS. Then there are the teleconferences. Buchanan aide Bill Spadea has conducted close to 35 "Pat chats," each hooking up from 150 to 200 targeted supporters and undecided voters in a conference call. Typically, Buchanan gives a five-minute pep talk, then takes questions from callers. Aides say the conferences clinched the narrow victory over Forbes in Alaska's straw poll.

For all his success so far, Buchanan's days of living on the cheap may be over. He has chartered a 90-seat jet for post-New Hampshire barnstorming and plans to hire a professional advance crew to create telegenic media events.

Will Buchanan get spoiled? Nope, says Jeffrey. "We're always going to look for ways to save money, even if $20 million suddenly came to our doorstep." GOP pros doubt that Buchanan's renegade candidacy will attract such big bucks—but they have been wrong so far about his viability. Buchanan is determined to prove that in '96, ingenuity and a message can carry his shoestring operation all the way.

By Richard S. Dunham in Nashua, N.H.

CAPITAL WRAPUP

THE GOP'S WOMEN WOES

▶ The Republican Party's gender gap won't go away. In 1992 and 1994, Republicans fared better with male voters than with women—and the split seems to be recurring in '96. In the Feb. 12 Iowa caucus, only 43% of those who voted for GOP Presidential candidates were women. And in the Feb. 20 New Hampshire primary, women comprised just 44% of the GOP turnout. Why? Many were turned off by the negative ads and retreat from moderate social positions.

FIELDS'S FINAL FLING

▶ Representative Jack Fields (R-Tex.) is determined to leave his mark on the securities industry before retiring at yearend. The chairman of a key House finance subcommittee plans to reintroduce his securities deregulation bill in late February. The original bill, which proposed curbs on state and federal oversight of the markets, got sidetracked by telecom reform. The new one, which Fields hopes to push through his panel in March, will likely have similar provisions.

TOUGH TV TALK

▶ President Clinton plans to jawbone the captains of the entertainment industry up close and personal at the White House on Feb. 29. His mission: persuade them to curb TV violence, increase children's programming, and adopt a rating system like the one for movies. CEOs set to attend include Silver King Communications' Barry Diller, TCI's John Malone, Fox's Rupert Murdoch, Time Warner's Gerald Levin, Turner Broadcasting's Ted Turner, and Walt Disney's Michael Eisner.

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FRANCE

A BLACK HOLE FOR FRENCH BANKS

Painful mergers, restructurings, and cost cuts lie ahead

Seated in his office in the 18th-century headquarters of Compagnie Financière de Paribas, Management Board Chairman André Lévy-Lang seems nervous discussing the outlook for France's flagship investment bank. With good reason. When Lévy-Lang kicks off the 1995 reporting season for French banks on Feb. 28, Parisian financiers expect him to report a loss of up to $800 million, the result of the banking and financial conglomerate's lending and investing mistakes.

Lévy-Lang declines to comment on Paribas' results. But he may have even bigger problems ahead. With Paribas' market capitalization down to $6 billion—half its book value—"we could be taken over," Lévy-Lang admits. Shareholders who have seen the value of their stock drop 30% in just over a year, he adds, "ought to be very angry, very dissatisfied."

With $275 billion in assets, Paribas is the basket case *du jour* of French banking. And Paribas isn't the only French bank where trouble is brewing. It is emblematic of an industry that is the sick man of European finance and is ripe for a painful round of mergers, restructurings, and cost cuts (table).

An overhaul is certainly needed. With lenders around the world hunkering down to improve returns, the French are behind the pack. Even the be French banks produce returns on equ ty of about 8%—half that of many U. and British competitors. Says Ma Hoge, banking analyst at CS First Bo ton in London: "French banks are crisis and will be in crisis for years."

RATINGS DROP. Even as problems mou many lenders still seem unable to e cape the legacy of state ownership maneuver around portfolios of underpe forming industrial holdings. And hangi above them all is a market strangled high interest rates, overregulation, a government intervention—plus a fo year-old property crisis that may co $200 billion in losses by the decade's en

Amid such distress, French bankin revenues fell again in 1995 after tu bling 8% in 1994, the first decline in years. Standard & Poor's Corp. dow graded its ratings on a quarter France's banking groups in 1995 a expects more this year. The slippa which began in 1992, is increasing t industry's funding costs and causing c tomers to defect to other countri higher-rated banks for derivative de

Some observers consider this Jap nese-style banking mess should ha been fixed long ago. When governme officials and executives shook hands l

What's Dogging French Lenders

BAD REAL ESTATE
Declining property prices and a 9% office vacancy rate in Paris continue to put downward pressure on rents.

NO REVENUE GROWTH
Industry revenues dropped 8% in 1994 and appear to have declined again last year.

HIGH COSTS
French banks rank among Europe's least efficient. National 12% unemployment rate prevents deep staff cuts.

WEAK PROFITS
Even the healthiest banks run returns on equity of 8%—half that of major global competitors.

DATA: BUSINESS WEEK

spring on a plan to take $27 billion in problem assets off the books of state-owned Crédit Lyonnais, financiers believed the bailout would mark the end of the disasters bred by Lyonnais' rapid expansion and its U.S. and European lending excesses of the 1980s.

Then the rot spread. First came France's biggest postwar banking collapse, the failure last summer of Banque Pallas-Stern, with $3 billion in assets. When the French central bank couldn't persuade investors to fund a rescue package, the collapse dealt a blow to an industry that had boasted of its ability to skirt recession and real estate woes.

FACING REALITY. Another watershed came this winter, when Crédit National decided to merge with Banque Française du Commerce Extérieur. The new bank will have assets of $70 billion and represents what S&P analyst Scott Bugie calls "the first merger of consequence" in France since Banque Indosuez was formed in 1975. Now the troubled state-owned insurer, GAN, is looking to sell its majority stake in Groupe CIC, France's seventh-largest banking group, perhaps to Société Générale, whose assets total $280 billion. And on Feb. 19, Banque Indosuez agreed to sell its 75% stake in London fund manager Gartmore PLC to Britain's National Westminster Bank PLC for $726 million.

Gartmore's sale will deny Indosuez a steady flow of cash it needs to even out volatile trading revenues. That's the price Indosuez is having to pay for years of losses from sour real estate investments. Just weeks ago, its parent, Compagnie de Suez, announced plans to rein in Indosuez' global investment banking ambitions and slash costs. Now Paribas is expected to start facing reality, as well. Some analysts believe Paribas will sell a real estate development unit and is preparing to write down as much as $500 million from the value of its 30% stake in Compagnie de Navigation Mixte, a diversified holding company.

Paribas should wind up better focused on its international investment banking franchise. But at home, it and other lenders still face unrelenting competition from mutual and cooperative banks such as Crédit Agricole, as well as the expansion-minded post office. So bank executives likely will face more pressure than thanks from stockholders for some time. "If there isn't enough movement, shareholders will lose patience," says Lévy-Lang. They're losing patience with a lot more than Paribas. And they face a long wait before France's overextended lenders fully mend their ways.

By Bill Javetski in Paris, with bureau reports

FRANCE

CHIRAC'S LIGHTNING STRIKE

Two moves will shake up the bloated defense industry

Arms makers around the world have long wondered when France would join the industry trend and consolidate its defense companies. On Feb. 21, President Jacques Chirac at last made his move: Turning merger broker, he strongly urged the nation's two big aircraft builders—state-owned Aerospatiale and family-controlled Dassault Aviation—to fuse within two years. At the same time, he ousted CEO Alain Gomez of state consumer-and-defense electronics giant Thomson and announced plans to sell the company by yearend.

Pressures for a shakeup have been mounting. Adjusting to the post-cold-war era, Britain, Germany, and Italy have already taken major steps to restructure their military Establishments. Beyond that, the stubborn French budget deficit—5.5% of gross domestic product in 1995—has left Gallic leaders with little choice but to tighten up. Both Thomson and Aerospatiale are financially shaky. Thomson lost $348 million in 1994 and is still bleeding red ink, analysts say. For 1995, Aerospatiale, with $7.8 billion in sales, is expected to announce its fourth consecutive annual loss. Both have been badgering the government for $2 billion in new capital.

THINNER SLICE. But Chirac has other ideas. He wants Aerospatiale to grab cash-rich Dassault, which is 45% government-owned and builds the Mirage fighter and Falcon executive jets. The aim is to create a French aviation giant. And at Thomson, the plan is for a sell-off of at least part of the government's 76% stake. The holding company is also expected to merge with its richer affiliate, Thomson-CSF, a defense electronics company.

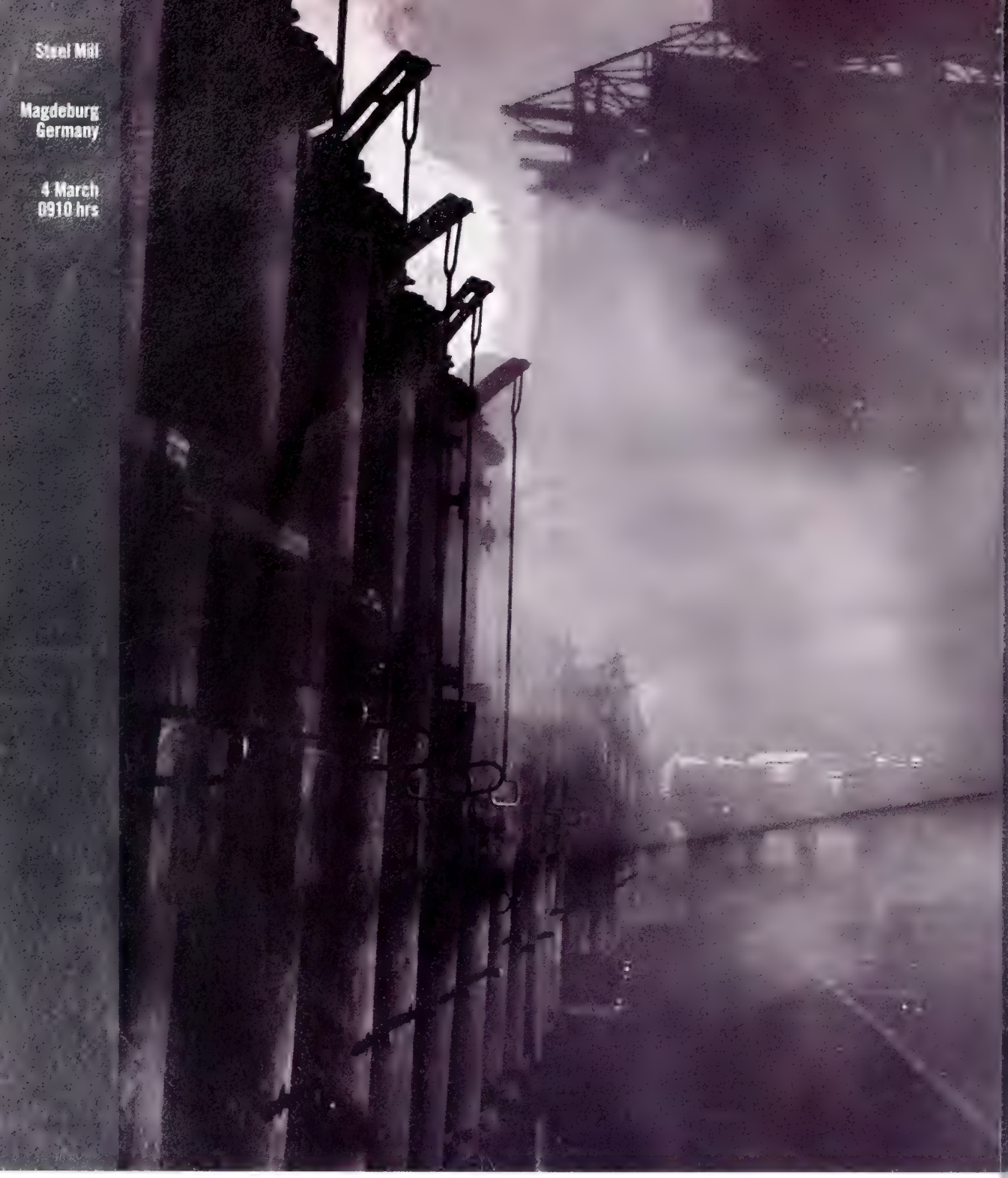
Gomez lost his job because he objected to the merger with Thomson-CSF, analysts say. The deal would dilute the 42% of Thomson-CSF shares that are publicly traded. Not surprisingly, those shares fell 11%, to $23.80, on the day Gomez was pushed out. Now, Marcel Roulet, 63, his newly appointed successor, will have to see the Chirac strategy through. Roulet, the ex-chairman of state-owned giant France Telecom—which owns 20% of Thomson—was replaced last year after he pushed for privatizing the outfit.

BIG CARROT
Chirac promises that the French air force will place a hefty order for Dassault's Rafale fighter if the family agrees to a merger

With defense soaking up only 10% of French GDP, down from 12% in 1991, and with exports drying up, arms makers are likely to accept a reshuffling. A Dassault-Aerospatiale merger has been a government dream for a decade, but the Dassault family, which owns 45% of the company, has resisted. So Chirac is promising that the French air force will place a major order for Dassault's new fighter, the Rafale, if the family agrees to the merger.

For France's proud defense companies, it's all a big comedown. But these days, France's wars are being fought in the budgetary trenches. As Paris slashes defense jobs and spending further over the next few years, more sell-offs are likely to be on the way.

By Stewart Toy in Paris



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SWEDEN

THE WALLENBERGS' FLAGSHIP MAY CROSS THE OCEAN

A U.S. listing for Investor would raise badly needed capital

In 1973, Claes Dahlbäck moved to New York as a fledgling analyst for Swedish holding company Investor, and saw the future. It was Wall Street. "I realized that U. S. investors were more interested in growth companies than the Europeans were," says Dahlbäck, now 48 and CEO of the Wallenberg family's flagship company. "I knew that Investor would have to be listed in New York someday." True to his word, this spring Dahlbäck will meet with Investor's board to decide whether to list the company either on the New York Stock Exchange or NASDAQ. Chances are good, says Dahlbäck, that the board will approve an offering.

A New York listing for Investor, now 44% Wallenberg-owned, is just one sign that this Swedish institution is on the brink of big change. With patriarch Peter Wallenberg nearing 70 and preparing for retirement, his son Marcus and nephew Jacob are eager to leave their stamp. Although the Wallenbergs are not talking, Swedish financial sources say the new generation, with Peter's blessings, wants to raise badly needed capital, broaden the shareholder base, move into new areas, such as information technology and media, and diversify Investor's holdings outside Sweden.

NO THREAT. Don't expect the clan to give up control. Promises Dahlbäck: "The Wallenberg family will continue to have the same strong influence." Yet the family needs more outside investors to boost Investor's stock price, which trades around $35 a share in Stockholm—below its book value of $38. That discount is frustrating for executives at Investor, which has major stakes in truckmaker Scania, Saab Auto, drugmaker Astra, forest-products company Stora, telecom company L. M. Ericsson, and appliance manufacturer Electrolux. It also controls Incentive, another investment company with positions in heavy-machinery manufacturer Asea and auto-parts maker Garphyttan.

Now is the time for the Wallenbergs to attract foreign investors. Scania, Astra, and other holdings all had a great year, and Investor's 1995 pretax profits jumped 57%, to $685 million. A global public offering of Scania should bring in $2.2 billion to Investor, while Astra plans a U. S. listing as well. Meantime, Investor may also sell shares in Electrolux and Asea.

Dahlbäck already has to deal with one big U. S. shareholder: Heine Securities, run by renowned stock picker Michael Price, who holds a 7% stake in Investor. Dahlbäck says he sees no threat in Price, who recently helped force the sale of Chase Manhattan Bank. But having a large number of American investors will be a new experience for the Wallenbergs. U. S. investors are more likely than Europeans to push for a voice in company affairs.

What's more, to interest potential shareholders, the company will have to disclose more of its plans. For example, it's unclear whether Investor will buy the rest of Incentive or do another deal within the Wallenberg companies. Such maneuvering might not boost ie shares. "As long as there's a questior it would be troublesome for the stoc," says Peter Dombos, an analyst wh Aragon Fondkommission in Stockhon.

Investor officials say the market ill be more appreciative after cash fr the Scania sale is used to pay do debt of $785 million and plowed i growth companies. Investor recently money into WM-data in Sweden a Tietotehdas in Finland, two compar that design software and operate c porate data systems. Investor is a studying the possibility of building media conglomerate around its sta in Stockholm daily paper *Svenska D bladet* and commercial TV station T

THE PATRIARCH: *Peter Wallenberg is nearing 70 and preparing to retire*

The Wallenberg Empire

THE COMPANY

Investor, the Wallenberg holding company, has maj stakes in Scania, Electrolux, broadcaster TV4, Ericsson, drugmaker Astra, Saab Auto, and ball bearin maker SKF. Investor also controls Incentive, another holding company.

THE PROBLEM

Despite a 57% rise in 1995 pretax profits, Investor stock, at $35 a share, lags behind book va ue of $38 a share.

THE PLAN

Offer new Scania shares in New York, list Investor in New York, and raise capita for more promising investments, such as high tech.

DATA: COMPANY REPORTS

Some of the Scania proceeds co shore up beleaguered Saab Automob which Investor owns 50-50 with G eral Motors Corp. Officially, no decis has been made about whether to money into Saab or sell out to Sources say Investor considers Saab prestigious to let it be taken over to ly by an American company. Dahlbä may face some tough questions if much money is funneled into Saab. and the Wallenbergs will have to used to a noisier class of shareholo as Investor reinvents itself.

By Ariane Sains in Stockholm, w Paula Dwyer in London

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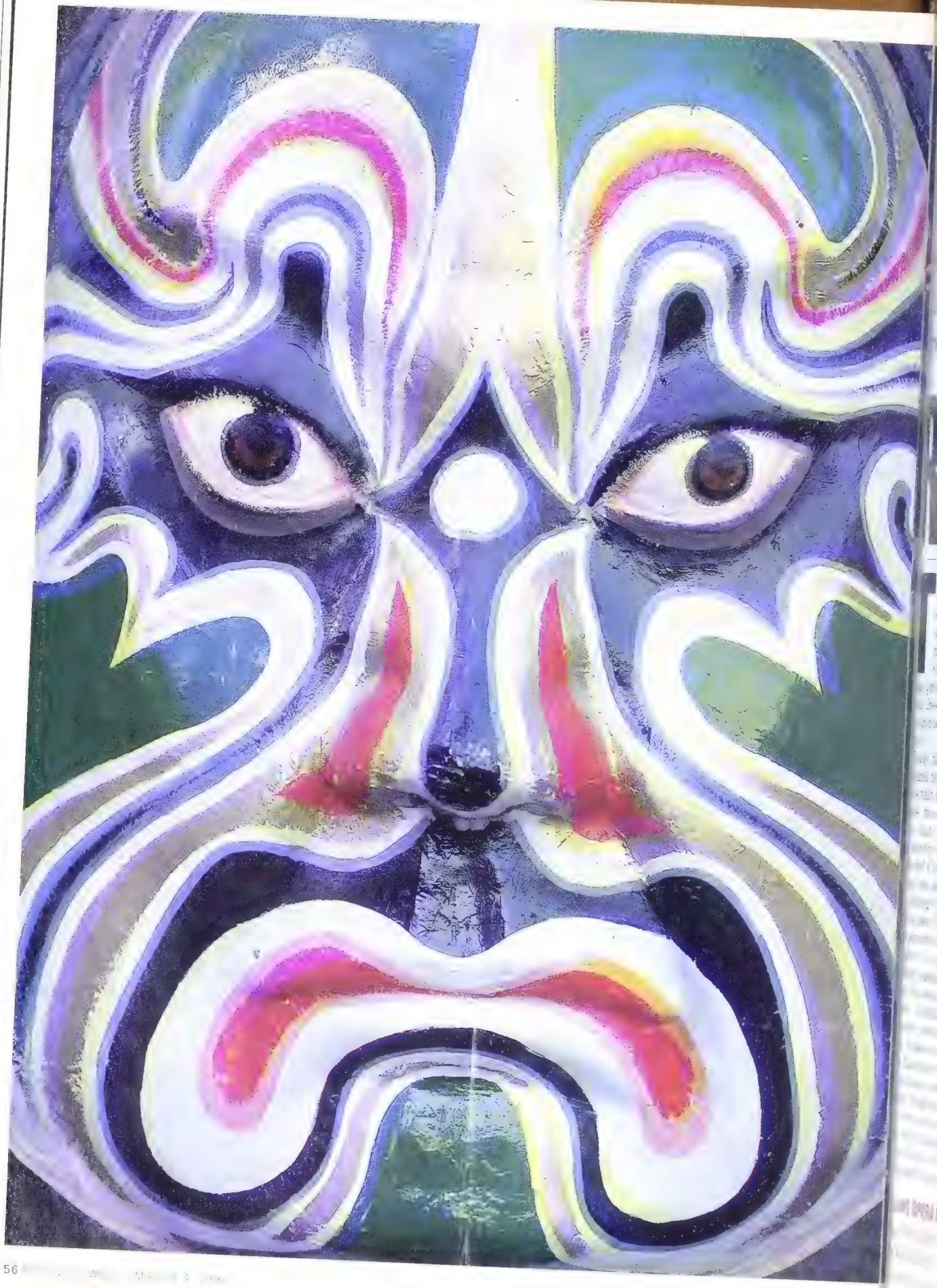


A pattern of disturbing behavior–from saber-rattling over Taiwan to strong-arming Western business–is causing concern about China's swiftly growing power

RETHINKING CHINA

Cover Story

This was the hope: After decades of hostility and conflict, China would open to the outside world and embrace at least some Western values. Businesses would be able to tap the Middle Kingdom's vast market, creating wealth at home and in China. Gradually, as the Chinese tasted the fruits of economic progress, they would demand and obtain greater political freedom, easing both the Communist Party's iron grip and any possible threats from the People's Liberation Army.

Today, that vision, which has framed the world's approach to China for 15 years, is being put to a crucial test. The reason is that China is making a surprisingly huge impact everywhere, from the Taiwan Strait to shop floors in America, in ways that weren't predicted when Deng Xiaoping opened his country to the world in 1979. In stunningly short order, a powerful China has emerged. As an economic force, it is entering and altering the global marketplace—and in some cases, writing its own rules.

The new China holds out both promise and peril. Alongside the potential of the world's largest untapped market is the danger of a poorly understood nation whose political and military agenda is increasingly at odds with that of its neighbors and would-be partners. Partly as a result of this dissonance, a rethinking of China is beginning to take shape in Western corridors of power. In some sense, it's a more important reassessment than the one that took place following the Tiananmen Square massacre of 1989. That could be explained as a one-time tragedy, however reprehensible. Now, as China toughens its line on a range of issues, some China-watchers are wondering if an economic colossus is emerging that could challenge Western interests while shunning political reforms at home.

Around the globe, concerns about China's economic strength are mounting. China chalked up a $35 billion trade surplus with the U.S. last year, while its own markets remain closed in sectors where U.S. businesses are competitive, such as telecom services and finance. Japan's deficit amounted to $14 billion, while Europe's has doubled, to more than $13 billion. In intellectual property, China is notorious as one of the world's greatest ripoff artists and seems increasingly bent on strong-arming U.S. and European companies into transferring jobs and technology as the cost for entering its markets (page 59). Already, China is churning out electronic products from color TVs to semiconductors, and it's determined to develop its own globally competitive players in fields such as aerospace and autos.

But China's economic power becomes more ominous to the West as its Communist leaders continue to crack down on dissent. Everything from the harsh 14-year sentence given last December to human-rights activist Wei Jingsheng to the neglect of female orphans offends Western sensibilities. Without a strongman at the helm, Beijing's leaders are obsessed with social stability. Donning Mao suits and making conservative speeches to prove his credentials, President Jiang Zemin, Deng Xiaoping's handpicked successor, is stoking nationalist sentiment while shunning risky reforms. In mid-February, for example, China ordered users of the Internet to register with the police or face punishment.

RUSSIAN ARMS. Meanwhile, the role of the military is rising. To bolster his position, Jiang is giving the generals a bigger say in foreign policy than they had in the Deng era. After years of skimpy military budgets, the 3 million-strong People's Liberation Army is gaining a bigger slice of the pie. Russian weapons are flowing into China at record speed, including the recent purchase of 26 Su-27 fighter aircraft. In a show of force, the army has mobilized 150,000 troops for large-scale maneuvers aimed at intimidating Taiwan. Equally disturbing are China's sales of nuclear technology to Pakistan and U.S. archenemy Iran.

Such developments are heightening concerns in Washington. "Our policy accepts China at its word when it says that it wants to become a responsible world power," says U.S. Defense Secretary William J. Perry. "But China sends quite

BEIJING OPERA MASK
What lies behind the New China's glustering facade?

Suddenly, Old Assumptions Are Being Questioned

	ASSUMPTION	REALITY
1	China's vast market will create opportunities for multinational companies and help spur job creation. A competitive challenge from China is decades away.	Some companies are making money, but because they are localizing production, unions back home fear that they are losing jobs to low-paid Chinese workers.
2	With market forces set loose, China's socialist economy will crumble as private companies replace the state sector.	China is not privatizing large enterprises. It is pushing industrial policies that put pressure on multinationals to transfer technology.
3	Economic reform in China will lead to political liberalization as the Communist Party's grip on society eases.	Chinese are focusing on getting rich rather than on politics. The party remains in control, as it cracks down on dissent and the media.
4	The People's Liberation Army will become a purely professional military that stays out of politics and refrains from foreign adventures.	The PLA is emerging as a kingmaker in the post-Deng leadership struggle. It is threatening Taiwan with force and allegedly selling nuclear technology to Pakistan and Iran.

DATA: BUSINESS WEEK

the opposite message when it conducts missile tests and large military maneuvers off Taiwan, when it exports nuclear-weapons technology or abuses human rights," he adds. While the Clinton Administration wants "comprehensive engagement" with Beijing, the dialogue is clearly not going well. New strategies are needed (page 65).

Magnifying the perception of China as a danger is the hard line toed by the current leadership. As Beijing politicians jockey to consolidate power while Deng grows frail, they cannot afford to appear weak by kowtowing to the West. Their saber-rattling over Taiwan has sent tremors throughout Asia. China considers Taiwan to be a Chinese province, and Beijing's leaders are trying to scare the Taiwanese from voting for pro-independence candidates in the Mar. 23 presidential elections. China sees its posture toward Taiwan not as a foreign military adventure but as an internal matter.

NEAR-FEUDAL CONDITIONS. What is missed in this contretemps is that the Chinese military cannot act much beyond its own coast without great cost. It could surely punish Taiwan, but it has no blue-water navy or mainline battleships. The largest and most modern vessel it boasts is a small destroyer that is obsolete by U.S. standards. So while a shooting war with Taiwan is always possible, it is highly unlikely.

More important, for all its aspirations, China remains a vast developing country, with a per capita annual income of $450. Many of its 700 million peasants live in near-feudal conditions, while 100 million have flooded into the cities looking for work. If unemployment hits a predicted rate of 7% in four years, an additional 54 million, about equivalent to France's entire population, will be on the streets. Crime and corruption, already on the rise, could worse

Even so, the expectations of the Chinese pe ple have risen to the point where China's leade can't really slow the pace of reform sharply b cause they need growth to retain power. Bei jing damped economic growth to 10% in 199 from 11% a year earlier, in part by reining in t most prosperous provinces. But few expe growth lower than 9% for the next decade.

So while many bold economic changes a stalling, others are accelerating—such as plans f a convertible currency that would tie financ markets firmly to the outside world. China also moving forward, albeit not at a pace t U.S. seeks, to protect intellectual-property righ Beijing will dramatically slash tariffs in Apr In the past two years, it has also enacted a unprecedented number of new laws to bolst foreign-investor confidence.

VOLATILE SWINGS. The path of Chinese histo has often been alarmingly erratic, unlike th well-oiled rise of postwar Japan. But China has population 10 times Japan's, and sheer size mak fine-tuning the economy impossible. Volatile swin can wreak havoc: One bad crop year, for exampl would wipe out the huge trade surplus.

But as in Taiwan or South Korea, it could tak a decade or two more for deep political change take root. A more enlightened generation of Ch nese, many with Western educations, is waiting inherit power. "Before you know it, people my ag will be running China," says a fortysomethin mainland economist educated in the U.S.

But accepting such a view requires patience of Wester policymakers, and that's in precious short supply as Chin shoulders its way onto the world scene. From Seoul to Sing pore, Asian leaders are also trying to find ways to deal calm with the giant that has awakened in the neighborhood. F Americans, though, China combines all the emotional issues: th fear of job losses, a human-rights record that still offen American values, and fears of military confrontation. That is potent brew indeed—particularly in an election year.

As the West's debate about China expands, it is sparkin a reaction from the mainlanders, who fear an effort to "co tain" their country's rightful emergence. Although the Ch nese may not be enamored of their present leadership, man give Beijing credit for overseeing the most prosperous per od in modern history. When the U.S. lobbies against holdin the Olympics in Beijing or threatens to revoke China's mos favored-nation trade status, these attacks are considere strikes against China as a nation—and not against the lea ership they're intended to punish. "As a Chinese," says a 3 year-old computer engineer in Beijing, "I'm getting disgus ed with the U.S."

That's what makes the current situation so unsettling. N matter what happens with Beijing's power struggle and th fist-shaking at Taiwan, China's already large economy is set t double in the next 8 years, making it the world's sixth-larges while its military capability will grow considerably. The stag will be set for one of the most important showdowns of th early 21st century.

By Joyce Barnathan in Hong Kong, with Stan Crock i Washington, Bruce Einhorn in New York, and bureau report

Many Chinese consider U.S. attacks on Beijing's human-rights abuses to be strikes against China as a nation

GLOBAL TREMORS FROM AN UNRULY GIANT

hina finally awakens–and the world braces for a new economic superpower

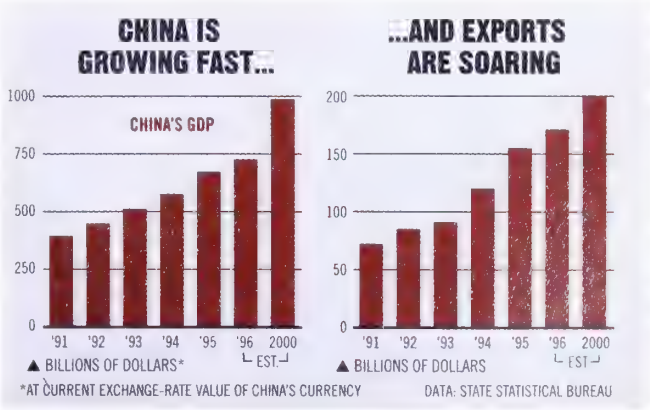
TECH BOOM
Checking copier drums at Xerox' Shanghai plant

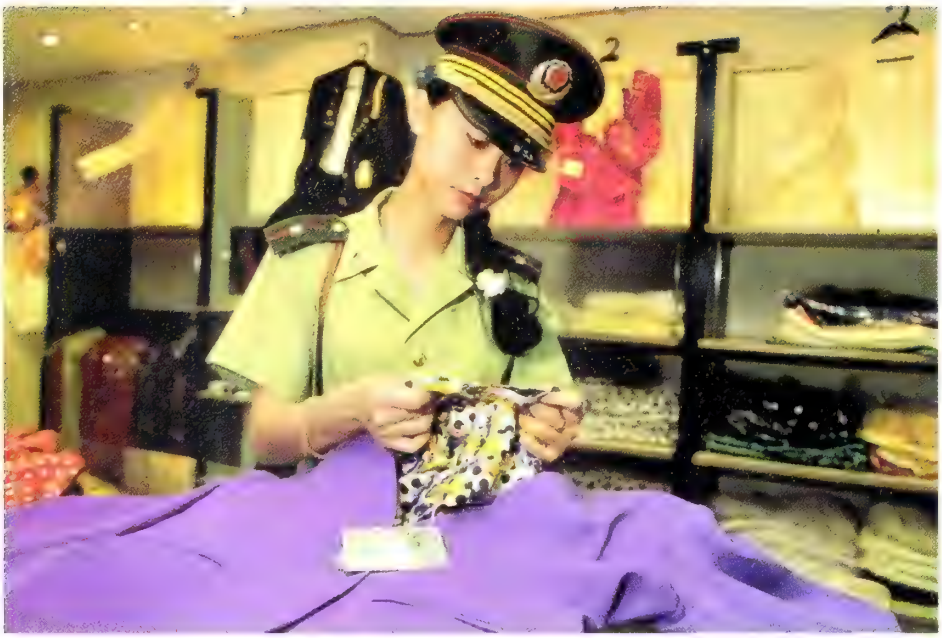
troll past the white-barked plane trees and worn buildings in the ancient Yangtze River city of Nanjing, and suddenly, through the branches, looms the enormous blue and white sign of Panda Electronics Group, a p-tier member of China's expanding industrial elite.

Here a New China is hard at work. Thousands of white-nocked women crank out boxloads of televisions, videocassette recorders, and digital switches—goods that give new eaning to the words "Made in China." But Panda's ambitious als are what really make it distinctive. Within the next five ars, it also expects to be a player in multimedia personal mputers, mobile-phone base stations, and airborne transitters. "Our emphasis will be on high tech," says Yuan

power generators, and computer tomography scanners.

By masterfully leveraging access to its market, Beijing is getting multinationals to subsidize large research and development institutes, modernize university curriculums, and promise to use China as an export base. Thanks to investments from Taiwan and Hong Kong, Chinese engineers are helping produce computer motherboards, CD-ROM products, and educational computer toys. The semiconductor industry, virtually nonexistent a decade ago,





EYES WEST
Quality-conscious Chinese often prefer imports; new Ford designs for the local market debuted at the '95 auto show

could have joint ventures producing chips with superfine circuit lines at a 0.3-micron level by 2000—about the same as South Korea today.

Western corporations are rushing aboard this next industrial lift-off. But the price of entry is mainly on Chinese terms, and as they offer up their tech secrets, anxiety is growing. For some, China increasingly represents the dark side of globalization. "You sit back and wonder," says George J. Kourpias, president of the International Association of Machinists & Aerospace Workers. "Is this the new global economy that we're all being urged to embrace?"

The concerns about China extend to think tanks, government offices, and corporate suites in most industrial countries. As China's joint ventures begin to export more, Chinese policy, not just comparative advantage, will be a force in determining winners and losers in industries across the world. For instance, multinationals that have followed Beijing's rules may use their Chinese factories, rather than U.S. plants, to meet the huge demand for goods in the developing world. Southeast Asian and Latin American countries, even with billions for new investment in better facilities and education, are also finding it hard to compete.

Cover Story

Of the world's big traders, China is in a protectionist league of its own. While Beijing is enacting substantial liberalization, prohibitive duties and arbitrary rules still curb imports of everything from cars to computers. Foreign investment in services such as telephone networks, consumer banking, and publishing is sharply limited or banned altogether. And planners are drafting policies that will demand foreign investors increase their transfer of technology and raise their exports of Chinese-made goods. To build a $420 million color-TV plant in Shanghai, for instance, Sony Corp. had to promise to export 70% of production.

MERCANTILIST JUGGERNAUT. Because its application to enter the World Trade Organization has stalled, China may be able to play this game for years. The thought of such a colossal, unregulated, and unruly object hurtling through the global economy makes analysts shudder. "China's sheer size means the rest of the world has to take developments there very seriously," says Marcus Noland of Washington's Institute of International Economics. "It is the single biggest potential threat to the world trade system."

The first casualties are starting to appear. Both Boeing Co. and McDonnell Douglas Corp. have laid off skilled workers a ter shifting production to China. James Aldridge, a 30-ye McDonnell Douglas assembly specialist, worked at a spraw ing Torrance (Calif.) plant that made parts for jets. Now, one of only 244 left after massive layoffs, he has been shur ed to a warehouse and expects that the company will soon moving even that to China, where it assembles midsize M 90 jets. "The handwriting is on the wall," he says.

This is ready ammunition for trade warriors who fear th China is becoming a mercantilist juggernaut. This sprin Congress may resurrect the debate over whether to rescin China's most-favored-nation trade status. Along with th usual hot buttons of human-rights abuses and illegal arm sales, such issues as technology transfer, exports of U. jobs, piracy of software and music, and the ballooning trad gap are likely to become more prominent.

It's easy to overstate China's economic threat. It has dynam exporters, but it poses little threat today in heavy and high-te industries, which are controlled by the inefficient state secto Beijing enforces protectionist rules, but imports have grown a most as fast as exports over the past 15 years. Through join

atter what happens with Beijing's power struggle and the st-shaking at Taiwan, China's already large economy is set to uble in the next 8 years, making it the world's sixth-largest, hile its military capability will grow considerably. The stage ill be set for one of the most important showdowns of the rly 21st century.

By Joyce Barnathan in Hong Kong, with Stan Crock in Washington, Bruce Einhorn in New York, and bureau reports

ttacks on Beijing's human-
against China as a nation

ıtures, multinationals are getting impressive access in key tors, with 80% of car sales, 90% of PCs, and almost 100% of ecom equipment. The trade surplus with the U.S. is growing, the U.S. estimate of $35 billion does not account for ser- es, the high content of imported components in Chinese- de exports, or the billions worth of U.S. goods transshipped smuggled into China through Hong Kong.

Multinationals contend that transferring technology is large- risk-free. Many pioneers in China have reaped rewards hout creating new competitors. Since United Technologies rp.'s Otis Elevator Co. started a joint venture in the north- Chinese city of Tianjin in 1984, it has moved ahead of Mit- ishi Corp. and Schindler Elevator Corp. to capture 25% of expanding market. This year it will double its capacity, to 00 elevators. "We bring the latest technology," says Richard Latham, president of UT's China operations. Yet little of that owhow has leaked to the 200 local elevator makers, whose oducts are far from world standards.

Otis' success has opened doors for other units of UT, which invested some $500 million in ventures ranging from ier air conditioners and Transicold refrigerated trucks and railcars to Pratt & Whitney jet-engine parts. An additional 10 joint ventures are under negotiation. By having such a huge presence, Latham believes UT companies also have an edge in landing big orders for U.S.-made power generators and high-end air conditioners.

Still, China's efforts to milk more out of foreigners means few secrets are really safe. The Chemical Industry Ministry has long been suspected of passing proprietary formulas obtained through joint ventures with foreign chemical and pharmaceutical companies to other state-owned factories. Moreover, now that the West has relaxed restrictions on high-tech sales to communist countries, it's also possible that technology will be diverted to China's ambitious military. McDonnell Douglas sold sophisticated machine tools under pressure from Beijing for use at a civilian aircraft plant; it later learned the machinery went to a factory producing defense fighters and missiles.

MENACING MICROSOFT. The demands on multinationals to help make Chinese industry competitive are unrelenting. Microsoft Corp., under threat of having its software banned, co-developed a Chinese version of Windows 95 with a local partner and agreed to aid efforts to develop a Chinese software industry. Chubb Corp., one of more than 40 foreign insurers competing for a new license to operate in China, is promising to build a $1 million "insurance university" in Shanghai. Northern Telecom, AT&T, Alcatel Alsthom, and others have established tie-ups in wireless communications, networks, and microchips. They have also established local labs, sent researchers to the West, and brought Chinese engineers into their product-development networks.

No one has outdone General Motors Corp. in the effort to win over the Chinese. To beat out Ford Motor Co. for the right to become a 50% partner in a $2 billion project to build midsize sedans in Shanghai, GM offered to bring in dozens of parts joint ventures and design much of the car in China. It also will set up five research institutes to teach Chinese engineers—most of whom don't even drive cars themselves—to turn technological theory in fields such as power trains and fuel-injection systems into applications. China will become an important part of GM's global sourcing network. Says GM China President Rudolph A. Schlais Jr.: "We've made the level of what it takes to participate here a hell of a lot higher."

Yet, given its self-image as a 21st century superpower, China may not be satisfied just being part of a foreign company's network, observes Denis Fred Simon, a technology-transfer specialist with Andersen Consulting: "They talk techno-globalism, but deep down, they're techno-nationalists. They don't want to be incorporated into an interdependent world."

If China is destined to be the world's biggest market for everything from cars to electrical appliances to computers, Beijing policymakers ask, what's wrong with wanting strong local industries? "To build a modern telecom network is impossible if you only import," says Xu Shangyan, a Ministry of Posts & Telecommunications director. "We must build a domestic industry."

But in scanning China's industrial landscape, planners see

Deutsche Telekom

raise their exports of Chinese-made goods. To build a $420 million color-TV plant in Shanghai, for instance, Sony Corp. had to promise to export 70% of production.

MERCANTILIST JUGGERNAUT. Because its application to enter the World Trade Organization has stalled, China may be able to play this game for years. The thought of such a colossal, unregulated, and unruly object hurtling through the global economy makes analysts shudder. "China's sheer size means the rest of the world has to take developments there very seriously," says Marcus Noland of Washington's Institute of International Economics. "It is the single biggest potential threat to the world trade system."

The first casualties are starting to appear. Both Boeing Co.

What happens with Beijing's power struggle and the st-shaking at Taiwan, China's already large economy is set to buble in the next 8 years, making it the world's sixth-largest, hile its military capability will grow considerably. The stage ill be set for one of the most important showdowns of the arly 21st century.

By Joyce Barnathan in Hong Kong, with Stan Crock in Vashington, Bruce Einhorn in New York, and bureau reports.

ttacks on Beijing's human- against China as a nation

e've come up with a
hole new world
nguage. It's got people
erywhere talking.

The world's first standard in digital mobile communications goes by the name of GSM – Global System for Mobile Communications. Deutsche Telekom played a key role in its development. With GSM, as well as ISDN and ATM, we're laying vital stepping stones toward the global information infrastructure of the future.

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China is "even scarier than Japan," says analyst Segal–at least Tokyo shares Washington's geopolitical goals

a long way to go. State companies in a host of industries need big infusions of technology and capital to stand on their own when China finally joins the WTO. There are 3000 Chinese pharmaceutical makers, for example, but only 20% are seen as up to world standards. Some 1 million PCs were sold in China last year. But of the top five brands, only one—Beijing's Legend Group—is local. And it's losing share.

To remedy that, the resurgent State Planning Commission in Beijing is focusing on bringing five "pillar industries"—autos, electronics, petrochemicals, machinery, and building materials—into the 21st century. The goal is to guide foreign joint ventures and get local players to merge into big groups like Korea's *chaebol*. "We want to elevate and develop our industrial products and one day replace the imports," says Lu Zheng, an industrial economist at the Chinese Academy of Social Sciences.

Cover Story

To reach this goal, Beijing is willing to flout free-trade principles. Its auto-industry policy, announced in mid-1994, is particularly harsh. The tariff for an imported passenger car is 100%. Rather than sell directly to consumers, foreign auto makers must deal with government trading companies. The result: In the first six months of 1995, vehicle imports plunged by 60%, to around 20,000, even though domestic car sales surged 7.4%, to 719,000. The plan also said that until 2000, only one new foreign auto maker would be allowed to form an assembly joint venture, resulting in the fierce contest between Ford and GM.

Bureaucrats are pressing ahead in other sectors. Last September, the Electronics Industry Ministry issued guidelines saying that all new foreign projects in computers, electric appliances, mobile phones, and fax machines should involve "new generations" of products and "continuous technology transfer." In addition, they must export over 70% of production. Policies are expected soon in machinery and chemica

But as the Sino-U.S. trade gap mounts, critics ask wl U.S. companies must jump through these hoops. Besides den ing access to companies that can't afford to play Beijing game, China's policies perpetuate a structural imbalance: T U.S. can't directly export where it has comparative advantag while America's doors are wide open to China. Says form Deputy Trade Representative Michael B. Smith: "They only a letting in companies which fit their master plan."

LACKING THE TOOLS. The Clinton Administration has h trouble confronting this issue. It now includes compulso technology transfer and export commitments in its litany unfair practices. But other than complaining to Beijing, Cli tonites argue there's little they can do when U.S. and Eur pean rivals are still one-upping each other to woo China's b reaucrats. "We are creating a competitor of extren proportions," argues a senior U.S. official. "But we do have the tools to deal with that threat."

With relations strained, talking China out of its restricti policies is becoming increasingly difficult. In this respect, Cl na-watcher Gerald Segal at London's International Institute Strategic Studies says China "is even scarier than Japan." least with Tokyo, he notes, Washington has a solid ally wi common security and geopoli cal goals. Not so with China. A as party hard-liners turn mo stridently nationalistic, they te to view any setback, includi failure to enter the WTO, as pa of a grand U.S.-led conspiracy "contain" China.

Many people worried abo China hope it will behave once wins entry to the world tra club. But Beijing wants to rai its domestic industries to wor standards before fully opening and seems willing to wait—u less it can enter under soft ter reserved for developing natio The Chinese are also confide that they can exert leverage Western trade rulemakers. China isn't admitted, "all co tracting parties will suffer," sa Sun Zhenyu, vice-minister f foreign trade and economic c operation. "China needs the W and the WTO needs China." The rest of the world, therefo faces a dilemma. If China is inside the club without sharing t same obligations, it is big enough to render the rules of wor trade meaningless. Having an 800-pound gorilla on the loo though, is just as destabilizing.

The pressure will only grow. As it continues to enjoy t benefits of multinational largesse, China is turning into greater threat to countries that once saw it just as a land cheap labor and huge markets. So far, there's little that of cials in Washington, Tokyo, or Brussels are doing about Companies anxious to get access to China's riches are willi to pay the piper. While that continues, Beijing may be able play by its own rules for a long time to come.

By Pete Engardio in Beijing, with Dexter Roberts Nanjing and bureau reports

CHINA SYNDROME
Aldridge fears that his job, like so many others at McDonnell, will be Shanghaied

COMMENTARY

By Amy Borrus

CRAFTING A REALISTIC CHINA POLICY

The only thing clear about President Bill Clinton's policy toward China is that it is not working. Clinton calls his strategy "comprehensive engagement." The idea is to talk to China on many fronts so that no single problem dominates. But this piecemeal approach has been easy for the Chinese to shrug off. Whatever the issue, from software piracy to gunboat diplomacy in the Taiwan Strait, the U.S. is not having much luck at influencing Chinese behavior.

At the same time, China's willingness to test its growing economic and political muscle is setting off alarms in Washington and East Asia. If Clinton is unable to manage relations with China, there is a danger that the world's most populous nation and the U.S. could wind up in a kind of 21st-century cold war. That would pose an enormous strategic problem for the U.S.—and put billions in investments by American companies at serious risk.

The challenge for the Clinton Administration is to craft a more focused, consistent China policy that serves long-term U.S. interests. One aspect of the existing policy is on target: U.S. and Chinese officials should be talking often on a wide range of issues. Although the dialogue has yielded scant results so far, cutting it off won't help. Washington must, however, sharpen up what now seems to be a scattershot approach. Here's how:

■ **SET PRIORITIES.** The point of engagement should be to integrate China into regional and global economic and security systems. The U.S. must focus its efforts on issues that are important and where influence can be brought to bear. Halting Chinese trafficking in nuclear-weapons technology should be a top goal for Clinton. The same goes for making sure China enters the World Trade Organization on similar terms to that of other industrial nations. China also has to be aware that it will pay a big price if it crosses the line in its efforts to intimidate Taiwan. But the U.S., unfortunately, has little leverage to compel Beijing to clean up its human-rights abuses.

TIANANMEN MARCH Sanctions may work for trade, but not human rights

■ **BE CONSISTENT.** Engagement does not preclude being tough with China when it flouts key U.S. interests. Rampant Chinese piracy of American trademarks and copyrights is a good example. If China continues to make a mockery of the Sino-U.S. accord on intellectual-property rights, Washington should waste little time in slapping on tough sanctions. If the U.S. won't enforce basic trade agreements, how can it expect China to play by the rules in other areas, such as security? Says a top U.S. official: "The Chinese need to understand that a deal is a deal."

■ **RALLY THE ALLIES.** The trouble with unilateral sanctions, however, is that other nations don't go along. That encourages Beijing to view the U.S. as The Enemy while our allies play China's good buddy, often winning deals for their own companies at the expense of U.S. business. The U.S. must work harder to marshal global support. Chinese copyright ripoffs harm Japanese and European industry, too. Moreover, if the U.N. censured Beijing on human rights, it would embarrass the regime far more than fiery rhetoric on Capitol Hill. America's allies "can't be free riders on the burdens we take," says Jeffrey E. Garten, dean of the Yale University School of Management and a former top Commerce Dept. official.

■ **DEEPEN ENGAGEMENT.** The more dialogue there is, especially at high levels, the more likely the U.S. and China will understand one another's motives and concerns. That would minimize the risks of dangerous miscalculations, such as a Chinese attack on Taiwan in a mistaken assumption of American indifference. Besides, if the bilateral relationship becomes better established, it will more easily be able to withstand shocks.

■ **GET CONGRESS ON BOARD.** No engagement policy will succeed without bipartisan support. Clinton must personally put forth a coherent China policy—and persuade Congress not to undercut it. A key goal should be to end the annual debate over China's most-favored-nation trade status. This ritual has become an occasion for Congress to lash out at China for everything from human-rights violations to arms trafficking. But doing so is silly and futile because yanking MFN status would harm U.S. commercial interests immeasurably without changing China's behavior. If Congress won't act responsibly, the Administration should find a way to grant China permanent MFN.

No doubt, it is tempting in an election year to let China policy drift. But economically and militarily, China can't be ignored. It will soon be the most powerful player in Asia. That makes it imperative to rethink how to deal with this emerging giant. Given its deep suspicion of foreigners, the Middle Kingdom will continue to be a difficult partner. But it need not become the next Evil Empire.

Borrus covers trade and foreign policy in Washington.

CARMAKERS

VW IS BACK— BUT FOR HOW LONG?

A bloated workforce could undermine ambitious plans

Three years ago this month, Ferdinand Piëch made his first public appearance as chairman of German carmaker Volkswagen. Steely-eyed and intense after three months on the job, he declared that VW was in a state of "emergency." By year-end, Piëch vowed, a shakeup would have the company back on course.

Sure enough, Piëch's reign at Europe's biggest auto company has been among the most turbulent in its history. He has cleared out top management ranks through a string of firings. He brought in José Ignacio López de Arriortúa, a remorseless cost-cutter from General Motors Corp., to drive down prices at VW's suppliers. And Piëch has gotten results: Although losses totaled $1.35 billion in 1993, VW has pulled back from crisis. At the annual press conference later in March, Piëch is expected to report that 1995 profits have at least tripled, to $320 million, on sales of about $61 billion. In the past year, VW's share price has risen 57%, to $364.

But the company's turnaround is far from assured. VW remains one of the world's least efficient carmakers. Margins are razor-thin as aggressive rivals such as Fiat and Ford undercut VW's prices. The European auto market, which contributes 75% of VW's sales, is stalling, with growth expected to be no higher than 3% this year. Even more trouble looms as upstarts such as South Korea's Daewoo Corp. pour billions into plants in Central Europe.

IN THE BLOOD. The 58-year-old Piëch, shy about granting interviews, declined to talk to BUSINESS WEEK for this story. But in a written response, he made clear that he is counting heavily on an ambitious plan to shrink VW's dizzying array of 16 platforms down to four by 1998 to solidify the company's recovery. "We are heading in the right direction, but we have not yet turned the corner," Piëch wrote BUSINESS WEEK.

To do that, Piëch must above all confront VW's expensive German workforce. Some 101,000 strong, it accounts for 42% of the group's 242,000 worldwide payroll and 58% of total wage costs. Piëch himself estimates the company has 30,000 more workers than it needs. But VW's structure is extremely resistant to change. Launched by Adolf Hitler in the 1930s to make a "people's car" designed by Piëch's grandfather Ferdinand Porsche, VW is still 20% owned by the German state of Lower Saxony. Unions wield huge influence from the factory floor to the supervisory board, preventing the kind of restructuring under way at other German blue-chip groups. Quips a prominent German banker: "VW is the last communist company in Europe."

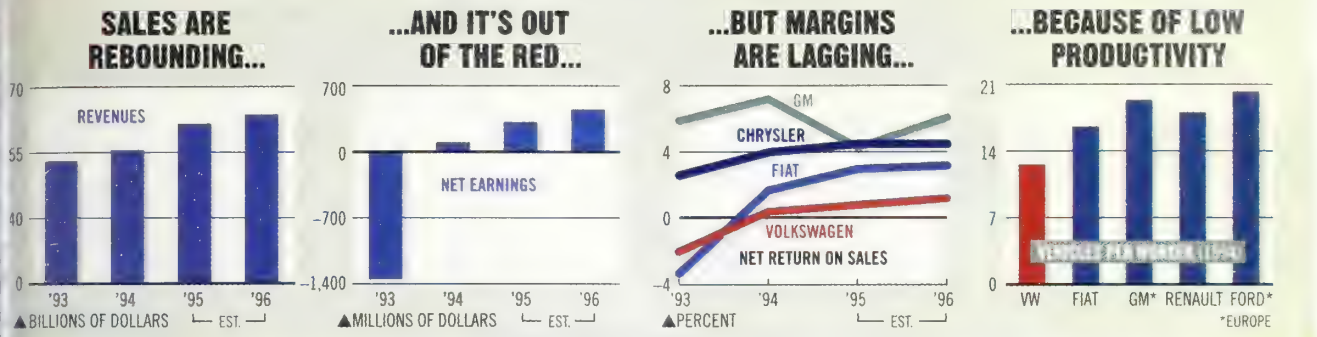
Piëch has done what he can to slash layers of VW management. In his first 13 months on the job, he cut VW's nin member management board, which responsible for day-to-day decision-ma ing, down to six. He fired Juan Anton Diaz Alvarez, longtime head of VW SEAT unit. Dozens of other manage have subsequently been let go, ar some former executives say Piëch ha created a climate of fear at VW.

Yet Piëch has limited clout for cu ting the workforce. The same boar majority that backed management la offs opposes any radical measures furlough workers. And cost-cutting crucial as car prices drop in Europ and companies scramble for marke share. VW's 2% price hike at the end 1995 failed to keep pace with inflatio Moreover, the company is pouring o incentives. Even so, VW models are o ten more expensive than rivals'. I Britain, the sticker price on a For Mondeo GLX sedan is $22,000, abou $1,650 less than a similarly equippe Passat GL.

So Piëch is hunkering down to im plement his platform consolidation pla His aim is to have similar-size model from all VW brands—VW, Audi, SEA and Czech Republic-based Skoda—shar thousands of common parts, from stee floor pans to windshield-wiper motors Explains Piëch: With only four plat forms, "we will be able to offer a muc greater number of models than befor

BEETLE REDUX: *Bugs will be on U.S. roads in this version*

VOLKSWAGEN'S DILEMMA



DATA: ECONOMIST INTELLIGENCE UNIT/LUDVIGSEN ASSOCIATES LTD.

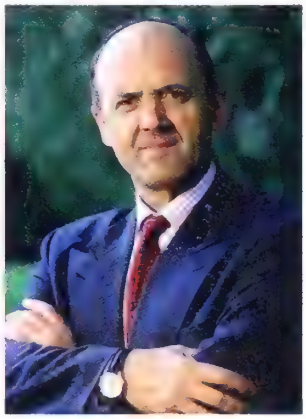
hile keeping their designs highly dis-
nctive." Once in place, the strategy
uld add up to $455 million in pretax
ofits, or about $150 a car, says
chröder Münchmeyer Hengst & Co.,
Frankfurt investment company.

But the one-size-fits-all strategy has
sks. It could tarnish the sporty, high-
ch image that Audi has
orked so hard to create. And
r VW's bargain-basement mod-
s, the strategy poses the oppo-
te problem. The steel struc-
re that makes Audi and VW
ndle well on bumpy roads at
utobahn speeds will probably
d unwanted cost to the cut-
te cars, say former VW engi-
ers. That could force the
ands to raise prices, making
harder to compete with Kore-
and other rivals.

López' supplier strategy faces
adblocks, too. Using tactics
ned at GM's European and
J.S. operations, he broke long-
term contracts and put
nearly every part up for bid.
Some components shifted from
German suppliers to
lower-cost rivals in such
places as Spain.

But such savings can go only so far. To keep extra workers busy, says Bernd Sudholt, vice-chairman of VW's worker council, management "is under pressure to do more in-sourcing."

While Piëch tangles with problems in Germany, he's also trying to clean up after the pell-mell overseas expansion launched by his predecessor, Carl Hahn. The Brazilian subsidiary, which split from a joint venture with Ford Motor Co. in 1995 and earned an estimated $675 million in net income last year, is purring along smoothly, but other regions demand closer attention. The most pressing case remains SEAT, VW's Spanish subsidiary. Losses shrank to $150 million last year, from $1.1 billion in 1993, partly thanks to an accounting shuffle, analysts say. But the unit is saddled with huge interest payments on its new $1.9 billion plant in Martorell.



STURM UND DRANG: *Piëch and López have been squeezing costs, yet VW remains highly inefficient*

At Skoda, Piëch slashed by 50% Hahn's plans to inject $5 billion to upgrade plants, expand capacity, and freshen the model lineup. Platform consolidation will likely make Skoda models increasingly similar to those at SEAT and VW. At that point, Piëch must decide whether it makes sense to keep such a small brand alive.

Meanwhile, thanks to the peso devaluation, stumbling economy, and scarce credit in Mexico, sales in 1995 plunged 79% and losses totaled an estimated $140 million. VW's low-income niche is being eroded by Nissan Motor Co.'s Tsuru and GM's Chevrolet. A new Beetle, code-named Concept One, starts production in 1997. But its $12,000 sticker price will be high for Mexico, and most of the cars will be exported.

BIGGEST PERIL. Even in China, where VW is the market leader with a 55% share, new competitors are gearing up. In 1998, GM plans to begin selling Buicks that will rival VW's somewhat stale $18,000 Santana and $25,000 Santana 2000. VW aims to defend its lead. After sales surged 49% last year, to 221,000, the company decided to expand its main plant in Shanghai and launch a joint venture in Changchun in the north.

Taken together, VW's challenges abroad and at home illustrate the fragility of Piëch's turnaround. Even if all goes well, he needs a few more years of steady sales to carry out his rebound plan. By then, VW reasons, attrition will have pared the workforce by an additional 20,000 or so and engineers will have had time to work the kinks out of the platform-consolidation strategy.

The biggest danger for Piëch is that some force beyond his control will upset VW's recovery. If Europe's economy slows and consumers close their wallets, VW may again veer off course. And as competition in the global auto market grows fiercer, he will come under pressure to speed up his deliberate strategy. With his professional reputation and his grandfather's company on the line, Piëch's tough strategy and style aren't likely to mellow any time soon.

By David Woodruff in Bonn, with David Lindorff in Hong Kong, Elisabeth Malkin in Mexico City, and bureau reports

RETREATS

HOW EAGLE BECAME EXTINCT

Anheuser saw synergies in beer and snacks. Big mistake

Eagle was grounded. As some 200 snack-food distributors gathered for a hastily assembled meeting in a suburban St. Louis hotel on Feb. 7, foreboding hung in the air. For August A. Busch III, the fiercely proud 58-year-old chairman of Anheuser-Busch Cos. whose powerful marketing machine dominates the U.S. beer industry, it was an extraordinary moment of defeat.

Standing before the grim-faced crowd, Busch said that Anheuser was no longer willing to try to extend its marketing prowess from beer to snack food. After 17 years of red ink, the $400 million Eagle Snacks Inc. unit would be shut. "This is historic," says PaineWebber Inc. analyst Emanuel Goldman. "I've never seen a high-quality trademark buried."

Busch had little choice. Almost four months after Anheuser put Eagle on the market, no serious buyers had emerged. All he salvaged was $135 million from the sale of four plants to Frito-Lay Inc., leaving Anheuser with a $206 million write-off. Nor was this the first retrenchment at Anheuser. The decision came only seven months after the company announced that its $1.5 billion Campbell Taggart Inc. bakery unit would be spun off to shareholders. Last fall it sold its money-losing baseball team, the St. Louis Cardinals. Now the $10.3 billion brewer aims to rededicate itself to two core businesses: the hypercompetitive beer market and its Sea World and Busch Gardens theme parks.

QUAGMIRE. Anheuser's misadventures in snacks and bread are an object lesson in just how difficult it is to expand far afield—even for a marketing powerhouse. That's not how it looked in 1979, when Anheuser started up its snack business, or in 1982, when it paid $560 million for Campbell. Then, the vogue was diversification. Having prevailed over rival Miller Brewing Co. in the Beer Wars, Anheuser was looking for new areas to spend its gushing cash flow.

At the time, say current and former executives, August Busch believed the synergies were dazzling, though deceptively simple. Anheuser knew distribution and marketing—and, in the case of bread, it also knew yeast, a key ingredient in beer. Salty snacks could be delivered by distributors on their normal beer routes to taverns and supermarkets. And

> The brewer is refocusing on Bud. Its Campbell Taggart bakery unit will be spun off, and the St. Louis Cardinals have been sold

Busch figured that by putting marketing behind bread, Anheuser could create a national brand in a fragmented industry.

The strategies quickly went awry. Beer distributors, it turns out, saw the opportunity to take on snack products as more diversion than delight. "We didn't want to dilute our focus," says Bob Delgado, president of Hensley & Co. Sales, a Phoenix distributor. "It may sound nice that beer and snacks go together, but not from a business standpoint." The two products go into different areas of supermarkets and convenience stores and are ordered by different officials, making distribution far more complicated than Anheuser anticipated.

In other words, rather than synergy, Anheuser faced a logistical quagmire. A patchwork of Eagle distributors emerged—some also carrying beer, some also carrying Campbell Taggart bread, some independent. And without much product breadth, Anheuser's costs remained high.

Distribution might have been manageable had it not been for a more formidable problem—the stirring of Frito-Lay by its parent, PepsiCo Inc. As Eagle boosted quality and began expanding from peanuts and pretzels to potato and tortilla chips in the late 1980s, "they gave us a wake-up call," says Ronald A. Rittenmeyer, a former vice-president of operations at Frito. The result: Frito launched an array of new products while upgrading distribution and cutting costs. Marketing consultant Gary Stibel says that by using the hefty profits it earned from its dominant position in corn chips to subsidize a move into potato chips, Frito slashed prices on the latter, squeezing

smaller players, from Eagle to regional

Beer distributors gulped. "I was not willing to chase a bunny Pepsi would never let me capture," says one big Anheuser distributor. The relentless attack paid off: While Frito's share of the market jumped to around 50% from 40, Anheuser's never topped 6%. The red ink worsened: Last year, Eagle lost $25 million on sales of just $400 million.

At the same time, problems started to appear in the beer market. Though Anheuser had eked out steady gains

eer profits in the early 1990s, flat con-
ımer demand has started to dent pric-
s and market share. Anheuser has also
ɔme under tougher attack from No. 2
Miller, which has launched several new
roducts. Last year, Anheuser's beer
rofits fell 5%, to $1.6 billion, on sales of
7.8 billion, according to analyst Gold-
ıan, and its market share went from
4.4% to 44.1%. The endgame for Eagle
rew near.

Busch began shopping Eagle around
st October. Sources close to the compa-
y say Nabisco Holdings Corp. took a
ɔok, as did seven financial groups. But
ɔservers estimate that it would have
ıken roughly $250 million to build de-
ent market share and profitability for
agle. "Here was a company with poor
ıarket position, poor execution, frag-
ıented distribution, and no cost or qual-
y advantage," says one potential buyer.
lthough some were still studying the fi-

ancials, one source familiar with the
alks says Busch pulled the plug when it
ecame clear no quick sale was in sight.

As for Campbell Taggart, it's at least
ıarginally profitable, returning about
50 million on sales of $1.5 billion. But
ne former Anheuser executive says
Busch was constantly frustrated that
e could rarely raise prices on its baked
oods. Nor did Anheuser succeed in es-
ablishing national brands, in part be-
ause many supermarkets had strong
rivate-label operations.

Now that Busch has finally stanched the financial drains, beer distributors and investors are lifting a mug in cheer. Anheuser's stock hit an all-time high of 71 in early February; it since has dropped to 68. Although Busch declines to comment, but sources close to him say the intense, hands-on CEO increasingly found snacks and bread an irritating diversion. Brand rollouts in beer and share repurchases, say some, were delayed. Robert C. Lachky, vice-president of the Budweiser brands, disputes that there was any distraction but adds: "Having 5% to 10% of additional senior management time has got to be a plus."

ANHEUSER'S DIVERSIFICATION

No profit payoff

	1995 SALES (MILLIONS)	1995 OPERATING INCOME	1995 OPERATING MARGIN
BEER	$7,789	$1,626	20.9%
CAMPBELL TAGGART	$1,500	$50*	3.3%
EAGLE SNACKS	$400*	–$25	NM
ENTERTAINMENT	$800*	$65	8.1%

DATA: COMPANY REPORTS, PAINEWEBBER INC.
*BUSINESS WEEK ESTIMATES NM: NOT MEANINGFUL

Yet the new strategy brings Anheuser back to the conundrum it started with: how to rebuild beer momentum. Sales of its flagship Budweiser have been falling for years but now appear to be recovering. Another bright spot: Bud Light, which now seems to have routed Miller Lite, is growing in double-digits. Over at Miller, Chairman John N. MacDonough, a former senior Anheuser marketing executive, is skeptical that shedding snacks and bread will make a difference. "This doesn't make them any fiercer," he says. "I never felt Anheuser was distracted."

GLOBAL MOVES. Still, there are signs that new moves are afoot. Distributors talk of much more contact with brewing executives. There's a greater focus on such issues as freshness: They're being encouraged to keep a keen eye on old inventory. On the product front, Anheuser will spend more heavily on marketing for its "mother brands," Bud and Bud Light. More than $70 million will go to Olympics ads and tie-ins. Efforts to build in the small but fast-growing microbrew segment are also under way. Some prospects: a flurry of regional products and acquisitions of microbrewers through its 25% stake in Seattle's Redhook Ale Brewery. "I have the green light to aggressively pursue growth," says William H. McNulty, group vice president for specialty brands. "We will take more risks in style and tastes."

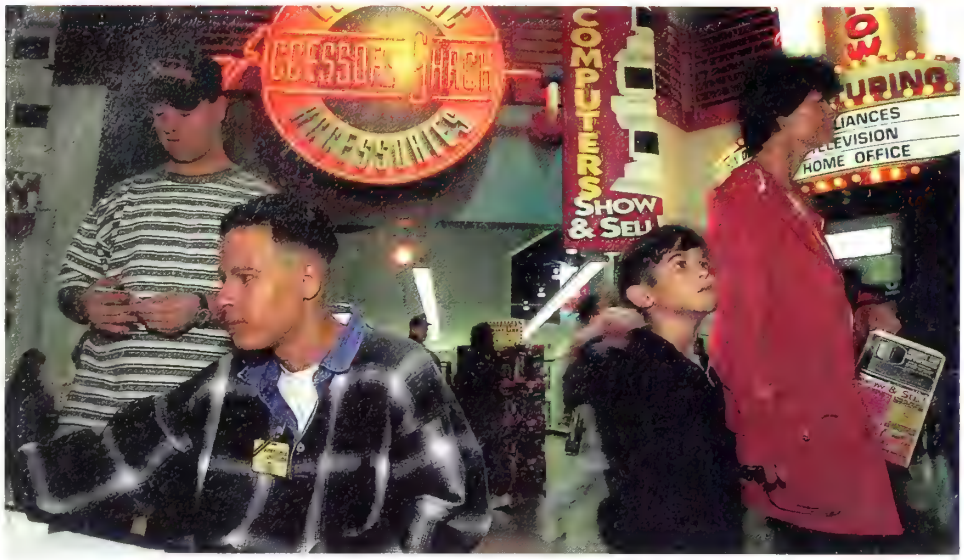
Anheuser is also in search of even larger opportunities overseas. To make Bud a global brand, it's establishing distribution partnerships with local brewers, from Kirin in Japan to Peroni in Italy and Kronenbourg in France. Anheuser is taking direct equity stakes, too: In 1993, it paid $16.4 million for a 5% stake in China's Tsingtao and $477 million for 17.7% of Mexico's No. 1 brewer, Grupo Modelo, with an option to acquire 43.9% of the voting rights by late 1997.

From a small base, overseas sales and earnings have climbed about 20% a year. International sales now contribute about $80 million to operating profits, roughly 5%. Bud has become Western Europe's fastest-growing brand, according to consultants Canadean Ltd., and in Japan it's the top-selling import as well.

Yet challenges abound. Bud's early success in Japan may begin to slow. Analyst Patricia Horvath of UBS Securities Inc. reckons that with its share slipping, Kirin "will focus on its own business." And in China, Anheuser may have bet on the wrong brewer: Though long the only national brand, Tsingtao didn't cut any deals to produce Bud in regional breweries. That's kept Bud from becoming a significant player—while more aggressive rivals, such as Japan's Asahi and Australia's Fosters, have stolen the show.

Still, such problems aren't likely to dissuade Anheuser from pressing ahead abroad, where growth prospects for beer remain far better than at home. And difficult or not, Busch now knows that he has little choice but to stick to building up in beer.

By Richard A. Melcher, with Greg Burns in Chicago and bureau reports



THEME-PARK AURA: *The nons p action distracts some shoppe*

STRATEGIES

INCREDIBLE UNIVERSE: LOST IN SPACE

The superstore may have to rethink its bigger-is-better credo

No one puts the super in superstore like Incredible Universe. With glitzy emporiums the size of two football fields stuffed with everything from computers to vacuum cleaners, it pushes the retailing craze for ever-increasing store size to new limits. But losses are also mounting, and some are beginning to wonder if the chain is really so incredible after all.

Tandy Corp., the Fort Worth-based electronics retailer with sales of $5.8 billion, opened the first Universe near Portland, Ore., in the fall of 1992. Believing that shopping had gotten boring, Tandy juiced up its stores with laser shows, *karaoke* contests, and door prizes, and predicted the chain would break even in 1995. Instead, analyst Donald I. Trott of Dean Witter Reynolds Inc. figures Incredible Universe's operating loss last year hit $26 million, on sales of $725.2 million.

Incredible Universe's woes come at a bad time for Tandy. With its flagship Radio Shack unit maturing, Tandy counted on Incredible Universe and its Computer City superstore chain for growth. But together, analysts say, Incredible Universe and Computer City lost $50 million in 1995, pushing Tandy's net income down 5.5% last year, to $212 million. The problems have sent the retailer's stock down to 43, more than 30% below the 52-week high last September.

To stanch the red ink at Incredible Universe, Tandy is shaking up management, slowing once-torrid expansion, and rethinking its advertising. Henry G. Chiarelli, Incredible Universe's new vice-president and general manager, declined to be interviewed but said in a written statement: "We know we can be profitable. We've done it, we're doing it, and we'll make it work for the whole chain." Yet some analysts say that repairing Incredible Universe's lack of focus and overwhelming store size may require some truly incredible measures.

One problem is the overall consumer slowdown. Sales of large appliances and consumer electronics—55% of the chain's selling space—are particularly lackluster. But it's not just the economy: Although superstores are grabbing market share everywhere, Incredible Universe may have gone too r. The average location packs so 85,000 products into 185,0 square feet, more than four ti s the average at rival Circuit C Stores Inc. Says one superst competitor: "It can't gener enough sales per square foot make it profitable." And altho Incredible Universe counts on huge selection, deep stock, a entertainment to draw custome the theme-park atmosphere costly and some find it distra ing. Moreover, while Unive prices are competitive, they rarely the lowest in town.

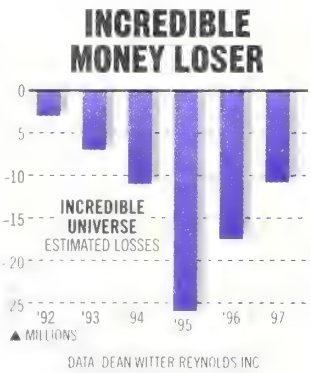
Growth is another proble Tandy aggressively expanded the ch in 1995, nearly doubling the number stores, to 17. Critics say the expans left management too stretched to fo on existing stores. "That's a crazy op ing schedule for stores of that siz" says a former Tandy executive.

NOVELTY. Tandy says Universe sto usually reach $55 million to $65 mill in sales their first year. Analysts fig they break even at about $70 milli But the hardest part is building traf after that first year, when the nove wears off. Tandy says that three of oldest stores had average sales of $7 million for the year ended last June a operating profit margins of 1.8%.

Nonetheless, Universe is slashing aggressive expansion plans and has its 1996 store openings from 10 to plus a smaller satellite. Tandy also sh fled management last fall, moving former head of Universe, Richard Hollander, to a real estate post and placing him with Chiarelli, a member the task force that developed the co cept. Already, Chiarelli is altering t ambience of the stores with less ai clutter. And overhead music now ta gets baby boomers, r teens. New ads w stress products rath than the store conce

Incredible Univer has tapped into so of the most success trends in retailir mammoth size, hu selection, and lots glitz. But so far, t moves seem to ha dropped profits into black hole.

By Stephanie Anderson Forest in Dallas



NLINE SERVICES

WAR OF THE WEB

Vaves of upstarts are storming into the no-frills market

No sooner did the Internet's World Wide Web streak onto the scene two ears ago than pundits egan predicting the deiise of commercial one services such as merica Online Inc., ompuServe Inc., and rodigy. After all, if the nternet connects millions f PC users to computers round the world for peauts, who would pay 9.95 a month plus $2.95 n hour after five hours or a far more limited cyerspace experience?

The pundits were preature. Not only have all ree services survived, AOL as experienced its best rowth ever. Since 1994, the ervice (which carries BUSINESS EEK Online) has doubled, to ore than 5 million members, aking it No. 1. For the quaer ended Dec. 31, AOL reported record $249 million in revenues, with et income of nearly $10.6 million. That ompares with a loss of more than $38 illion in the same period the year beore, on revenues of only $76 million. OL's formula: By constantly updating s service with new features and conent, it has kept the public logging on.

ELLING OUT? Its rivals, both subidiaries of large corporations, haven't ept up. But both may be getting ready or rebirth. On Feb. 20, H&R Block Inc. nnounced plans to split off CompuServe nd offer 20% of the company in a pubc stock offering. Potentially, that gives ompuServe, which now has 4.4 million nembers and had an estimated $203 illion in revenues last quarter, the freeom and cash to go after the lead again.

Just a day later, Sears, Roebuck & o. CEO Arthur Martinez announced the etailer had finally decided to sell its 50% take in Prodigy. If IBM buys out Sears, it can pump fresh resources into the flagging service. If IBM sells out, too, Prodigy could set up shop as an independent.

For all three services, the next year or two will bring enormous challenges. While the Web hasn't dealt a death blow, it remains a threat. Forrester Research Inc. predicts that membership in commercial services will probably top 15.8 million in the U.S. by 1998 (chart). While that is more than a threefold increase from predictions made just last July, Forrester analyst William M. Bluestein still maintains that online services as we know them are going to fade. "They won't fall off a cliff, but they'll be put off center stage," he says now.

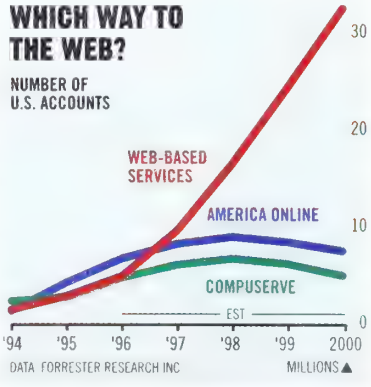
The spotlight will shift to Internet service providers (ISPs)—outfits that, for a flat, monthly fee, give unlimited access to the Internet and Web. Forrester estimates that ISPs could claim as many as 32 million online subscribers in the U.S. by 2000, vs. 12.7 million for online service providers. It won't be a zero-sum game for the online companies, however. Both AOL and CompuServe now have separate Internet-only services to grab a chunk of the new market, too.

STREAM OF DEFECTORS. The Web market is ripe for taking. Most ISPs are tiny and limited in geographic coverage. The biggest, Netcom Online Communication Services Inc. of San Jose, Calif., mushroomed from just 70,000 to 307,000 subscribers when it started marketing nationwide access in 1995. Many of the new recruits, says John E. Zeisler, vice-president of marketing, were defectors from online services. "What people do online are E-mail, Web-browsing, and chat," says Zeisler. "The economics are cheaper with flat-fee ISPs."

Indeed, what the ISPs sell is cheap, unlimited access. International Discount Telecommunications (IDT) Corp., based in Hackensack, N.J., runs print ads claiming that if a Net surfer spent every hour of the month online with AOL, it would cost more than $2,100, vs. the flat $29.95 fee on IDT. While it's not likely any AOL member would ever run up such a bill (AOL claims the average tab is between $18 and $20), the message has worked. IDT says membership has jumped to 70,000, from 34,000 in October when the campaign began.

The battle for Web access is about to escalate. In addition to AOL and CompuServe, phone giants including AT&T and MCI Communications Corp. are jumping in—with cost advantages and huge marketing budgets. "If [phone companies] can get even 5% of their customers to sign up for Internet access,

LET'S GO SURFIN'
The marketing showdown between Internet service providers has a juicy prize: 32 million browsers who don't want fancy extras



then all of a sudden they're in the big leagues," says Mark Mooradian, an online analyst with New York-based Jupiter Communications Inc.

And the telcos are ready to roll. In late January, No. 2 long-distance carrier MCI backed out of its year-old joint venture with content-rich News Corp. and teamed up with Microsoft Corp., which is now scuttling plans to operate its Microsoft Network (MSN) as a commercial online service. Now, MSN will become a Web access service—with special Microsoft-only areas. "I think it's a smart move for MCI," says Jupiter's Mooradian. "Having all of the MSN traffic going through all of its lines is a good advantage."

Meanwhile, No. 1 AT&T has dropped plans to market Interchange, a proprietary online service it bought from publishing giant Ziff-Davis Publishing Co. In March, the company is expected to announce an Internet access service called WorldNet. It will be "competitively priced," says Tom Evslin, vice-president of gateway services for AT&T.

HELPING HAND. In addition to low price, the telcos are throwing in "value-added" features. For example, AT&T New Media Services—remnants of the defunct Interchange—will help businesses develop Web sites and online publications. To convince consumers that it's safe to shop on WorldNet, AT&T says it will cover the cost of any credit-card fraud that consumers may encounter—provided the purchase was made with AT&T's Universal Card. "We're removing the obstacles that prevent the two-thirds of PC owners from going online," says Evslin. "We're going after this in a really big way."

That has ISPs scrambling to beef up technical support and provide fresh amenities such as "filtering" to help members sort through the endless flotsam of information and Web sites. "The next step is not just access but to focus on the service," says Netcom's Zeisler.

AOL, CompuServe, and Prodigy are also preparing for the onslaught. It has been relatively easy to keep customers so far. But outrunning the likes of AT&T and Microsoft will be harder. So the Big Three are trying to head off the threat, emphasizing the Internet links on their regular networks and pushing new all-Internet services. CompuServe just launched its $19.95-per-month Sprynet, and AOL says it signed 300,000 customers for its GNN service in three months. The price: $14.95 for 20 hours. Prodigy, now No. 3, is testing a $1-per-hour Net access service with no monthly minimum. This way, if customers defect to the Net, the Big Three can still catch them.

By Paul M. Eng in New York

CHIPS

TIME MAY HAVE PASSED THE POWERPC BY

Delays and infighting have cost the partnership dearly

MAKING 604s *The partnership blew its debut in 64-bit chips*

Apple Computer Inc. employees worried about their jobs weren't the only ones who sighed with relief when, shortly after Gilbert F. Amelio took over as CEO, merger talks with Sun Microsystems Inc. collapsed. Apple's decision to go it alone was also welcome news for Motorola Inc. and IBM, its partners in the design and production of the PowerPC microprocessor. If Apple, which last year shipped 4 million Macs using the PowerPC, switched to Sun's SPARC chip, the venture known as Somerset would be sunk. "Apple is critical," says Didier Breton, a vice-president at Groupe Bull, which is building PowerPC-based systems. "If they move out, we have to consider the situation anew."

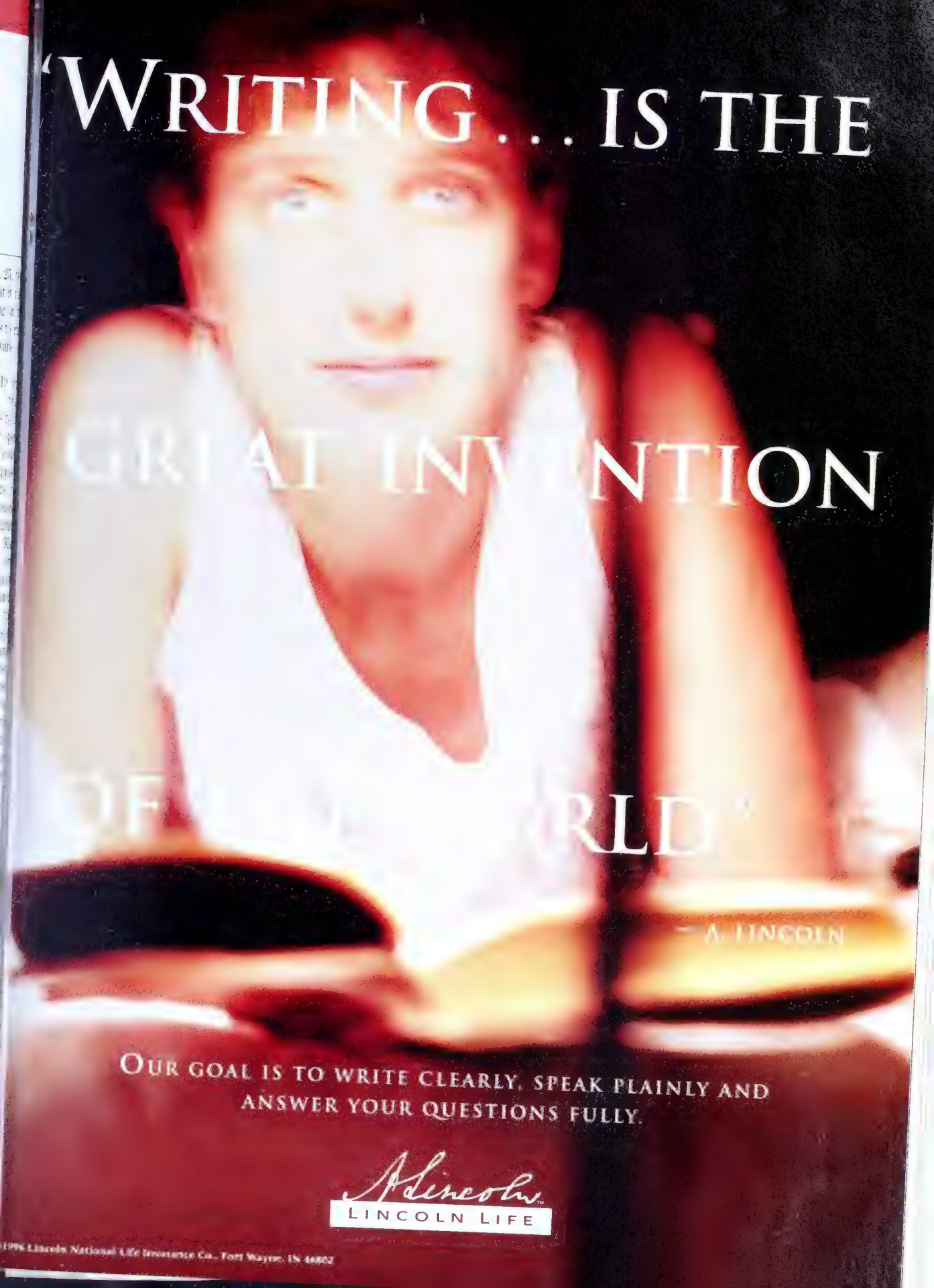
As it is, Somerset hasn't even come close to its goal of posing a serious challenge to Intel Corp.'s dominance in microprocessors. First, IBM and Apple dickered over whether Big Blue would license the Macintosh operating system; that delayed for years an agreement between the two companies for a common hardware specification for a PowerPC-based computer design that could be widely cloned. Meanwhile, Somerset fell behind schedule on more powerful versions of the PowerPC chip. Then IBM folded the division that had botched plans to build PowerPC desktop computers in volume. On Jan. 25, IB announced that it ha pulled the plug on it lengthy efforts to ru its OS/2 software o the chip.

The Feb. 19 ar nouncement tha Motorola plans to li cense the Mac oper ating system coul help revive Apple flagging efforts t create a Mac clon industry. In additio to using the Ma software in its ow low-volume comput er business, Motorol plans to license th Mac operating sys tem to other compa nies and sell ther complete mother boards for buildin Mac clones. Motorol has identified China's Panda Electronic as a customer and says it has othe prospects among Asia's electronics com panies. "We see tremendous opportu nity in the Far East," says Joseph M Guglielmi, a Motorola vice-president.

DAMAGE CONTROL. Still, none of thes clones is likely to appear before 199 For now, that leaves the original Some set plan in tatters. While the partner claim the alliance is intact, Big Blue i quietly making alternate plans aroun its own next-generation PowerPC chip and continues to flip-flop on whether t license the Mac software. The lates IBM is considering a deal like Motoro la's—mainly to build Mac clone compo nents for other computer makers, not t sell Mac clones under the IBM name.

Meanwhile, Somerset is approaching critical deadline: The partners have n agreement to cooperate on developin PowerPC technology beyond a first-ger eration 64-bit chip due in early 199 That could mean—after pumping i what one Motorola exec says has bee "billions"—the partnership could dissolv

Even if the group hangs togethe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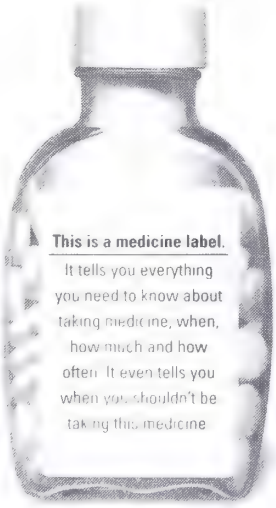

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Information Processing

IBM starts building Mac clones, and Apple rebounds strongly, the PowerPC partners may never regain what they've lost. "Three years ago, they had it in their hands," says Jon Rubinstein, president of Firepower Systems Inc., one of the few companies outside the Somerset trio to use the PowerPC. "While they haven't blown it, they sure haven't grabbed the opportunity. They're just not working together."

Back in 1993, the PowerPC partners had the jump on rivals in the development of speedy chips for workstations and network servers. But technical difficulties, internal bickering, and management upheavals delayed successor chips by 18 months. Says Sun CEO Scott G. McNealy: "The PowerPC is on real shaky ground."

TOO LATE. The new chips—a multiprocessor version of the PowerPC 604 and the 64-bit 620—are critical. These chips, which can be strung together in multiprocessor systems, are crucial for the fast-growing network-server market. Sun and Hewlett-Packard Co. already sell multiprocessor servers that rival mainframes. Now, Intel is jumping in. In November, it brought out a circuit board containing four Pentium Pro chips that can be used to build cheap servers. Just as Intel-made motherboards helped establish some PC makers, the server board could put lots of companies in the server business and drive down profit margins. "It's the new commodity," says J. Thomas West, the top engineer at computer maker Data General Corp., which has chosen Pentium Pro over the PowerPC for a new line of servers.

Things might have been different if the next-generation PowerPC 620 had stayed on schedule. Capable of crunching 64 bits of data at a time instead of the 32 bits of current PowerPCs, it was supposed to debut last April. Since only IBM has a compelling need for the 620. Apple never committed to use it, and Motorola is focusing on such high-volume opportunities as PCs and automotive controllers—the new chip fell behind schedule. The 620 won't be out for another year. Meanwhile, Sun and Digital Equipment Corp. already are selling 64-bit chips.

IBM can't afford not to have a good 64-bit chip. So it's quietly developing its own at a Rochester (Minn.) lab. The chip will be used in AS/400 midrange computers, and IBM has given the go-ahead to use a version of that chip, dubbed Apache, in the RS/6000 workstations rather than the 620. IBM is expected to have systems out with the Apache chip next year. It's also designing a new PowerPC chip, the 630, for its popular SP2 parallel computer, a mainframe-class machine. IBM had planned to use the 620 but decided not to wait.

IBM and its partners insist their diverging plans don't signal a problem. "We are in this thing for the long haul," says Nicholas M. Donofrio, an IBM senior vice-president. "There's no turning back." He says Big Blue still plans to use the 620—as soon as the parts are ready. He says IBM isn't being stingy with its technology: He's talking to Motorola and Bull about using Apache. So far, those companies say they are interested.

For now, the PowerPC partners say they have refocused Somerset to work on delivering speedier 32-bit chips for its volume customer, Apple. Somerset is aggressively boosting the speed of the 604 series. But the faster chips won't arrive before Intel starts flooding the market with Pentium Pro—moving the goalpost again.

By Ira Sager in New York, with Peter Burrows and Robert D. Hof in San Francisco and Gail Edmondson in Paris

POWER VENTURES

PLAN A

In 1991, IBM, Apple, and Motorola joined forces to break Intel's hold on the microprocessor market by leveraging the design and manufacturing prowess of Motorola and IBM and the volume-purchase potential that Apple and IBM could guarantee. The strategy: Develop a family of speedy chips that the partners could use themselves and sell to others for products ranging from handheld devices to supercomputers.

PLAN B

After production delays and bickering over the design of a common hardware, IBM and Apple finally agree to support a single specification in 1995. Given Apple's woes, the chances of developing a huge Mac clone market have dimmed. Meanwhile, the 64-bit PowerPC is still in development. Another bad sign: IBM plans to use its own version of the PowerPC chip in new workstations and servers.

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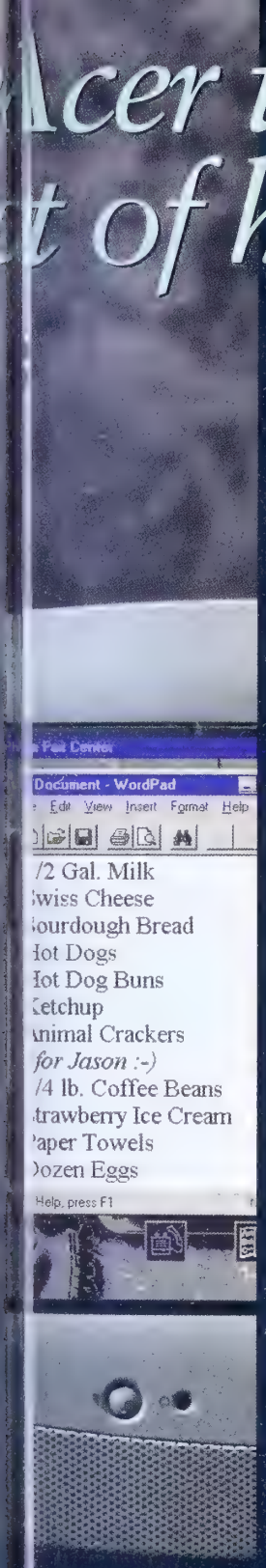

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COMEBACKS

CAN MARTY SHUGRUE MAKE PAN AM FLY?

Take a grand old name, some aging planes, and voilà!–a transcontinental carrier

Five years ago, Martin R. Shugrue Jr. took to TV to assure consumers he would keep ailing Eastern Air Lines Inc. flying. As court-appointed trustee, he burned through $400 million of creditors' cash before rising fuel costs and fear of flying during the gulf war grounded Eastern in January, 1991. In 1994, he tried unsuccessfully to revive it as New Eastern. Now, the former Navy pilot aims to relaunch himself as chief executive of a resurrected Pan Am.

On Jan. 30, Shugrue, Pan Am's vice-chairman from 1984 to 1988, announced a plan to restart the airline, which filed for bankruptcy in 1991. Come summer, Pan Am's blue globe—symbol of the first airline to fly around the world—is to grace eight aging Airbus A300s providing low-cost, nonstop flights among New York, San Francisco, Los Angeles, Chicago, and Miami. But there are stiff odds against Shugrue's keeping the reborn line aloft.

The industry is littered with failed startups, and a familiar name may not help. Says Michael J. Boyd, president of Aviation Systems Research Corp.: "You can dress a cadaver in a three-piece suit, but you can't make him dance." Shugrue declined to comment for this article.

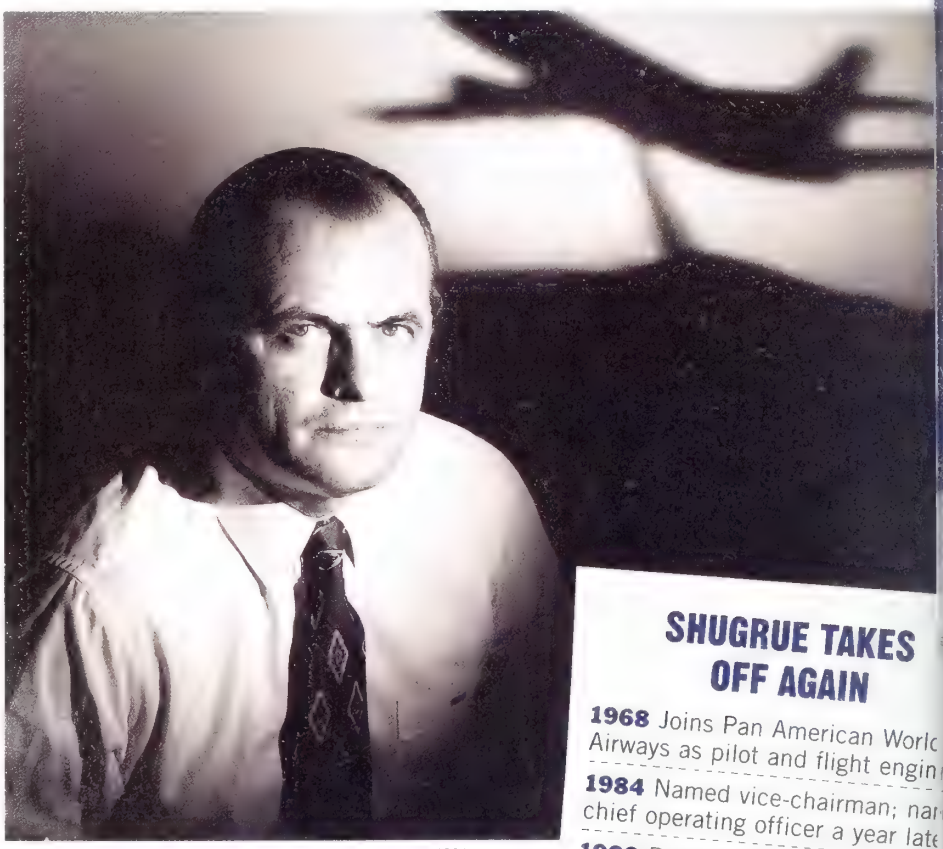
BLUE-COLLAR ROOTS. Even some of Shugrue's fans have doubts. Russell Thayer, chairman of Kiwi International Air Lines Inc. and a former Pan Am senior vice-president, praises him as "very capable, a good administrator" and able to attract experienced personnel. But the routes Shugrue has picked are major carriers' bread and butter, Thayer notes. And it will be hard to hold Pan Am's costs to 4.8¢ per mile—the level Shugrue says will make low fares viable.

Shugrue has the confidence—some former associates say the arrogance—to try to pull it off. The son of a Providence policeman, he joined Pan Am in 1968 as a pilot and flight engineer after six years in the Navy, moved into management, and made his way to the top.

His blue-collar roots always helped him relate to workers. "He's very charismatic and fosters loyalty among employees," says former Pan Am Vice-President Jeffrey F. Kriendler. Still, when the unions won the ouster of Chairman C. Edward Acker in 1988, the board asked Shugrue, his close associate, to leave also. He soon became president of Continental Airlines Inc. but, like many top Continental execs then, stayed only a short time. In April, 1990, he became Eastern's trustee.

Over creditors' objections, he kept the airline flying, initiating business-class service at coach fares. Within a year, he asked the court for a raise—from $35,416 to $50,000 a month—saying the reorganization was about succeed. He got it—and less than thi weeks later shut Eastern down. stayed to handle the liquidation, and one challenged the raise. Expla a creditor's attorney: "Everyo needs something from the truste

In 1994, Shugrue proposed New Ea



SHUGRUE: *He has raised roughly $30 million*

SHUGRUE TAKES OFF AGAIN

1968 Joins Pan American Worlc Airways as pilot and flight engin

1984 Named vice-chairman; nar chief operating officer a year late

1988 Becomes president of Continental; serves one year

APRIL, 1990 Becomes trustee of bankrupt Eastern Air Lines

JANUARY, 1991 Shuts down Easter

1991–1995 Presides over Eastern's dissolution, earns $4.5 million

JANUARY, 1996 Announces plans to revive Pan Am, which closed down in 1991

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ı to use idle Eastern planes. But he ıldn't raise the $100 million he needed. o one was going to bankroll Shugrue," 's an industry veteran who saw the n. "What shareholder value has he ated? The only value he ever created s for himself."

In January, 1995, Shugrue requested 2 million on top of the $2.29 million he l been paid, because of the value he l returned to creditors. Some credi- s were incensed, but he got the mon- Shugrue has previously defended his stern record. While it once appeared stern wouldn't pay even administra- e claims, unsecured creditors owed s than $100,000 have received 11¢ on dollar. Those owed more have gotten on the dollar, with more promised.

N QUEST. Shugrue stepped down in ɔruary, 1995. But liquidating agent n J. Sicilian soon asked him to help l a home for some A300s grounded by ıtinental. Eastern had once owned planes, and, because of a complex arrangement, stood to be out $6 mil- or so unless they were used domes- lly. Analysts SH&E Inc. suggested a ıscontinental carrier might use them. So Shugrue began a new quest for estors. He met with Charles E. Cobb Jr., former chairman of developer Arvida Corp., who paid $1.3 million for Pan Am's logo and name in 1993. Cobb had asked second-tier international airlines to form a "Pan Am Alliance" to exploit the trademark, but they wanted a domestic carrier to ferry passengers within the U.S. New Eastern looked like the ticket. Last fall, the two decided to use the Pan Am name instead.

The routes Shugrue has chosen for the new Pan Am are major carriers' bread and butter

Shugrue appears to have cleared the first hurdle—raising roughly $30 million in startup capital. He is contributing $500,000. Frost Hanna Mergers Group, a Boca Raton (Fla.)-based blind pool—which raises money before an investment is selected—will provide $10.2 million. While blind pools generally have questionable reputations, Frost Hanna's principals have done two successful deals. The pool is to merge with Pan Am, which will then trade publicly. Other investors will provide some $10 million. Cobb, who is chairman, is contributing the trademark and cash, together worth about $3 million. And Eastern is anteing up $4 million in facilities, assets, and cash. That came as a surprise to its remaining creditors. But Sicilian insists it's a good deal—and a small contribution to avoid a liability of $6 million or more.

Now Shugrue faces an outcry by survivors of victims of the 1988 bombing of Pan Am Flight 103 over Lockerbie, Scotland, who don't want to see Pan Am's name revived. Despite such clouds, dozens of old Eastern and Pan Am workers hope to sign on. "I want to know where to apply," says Maria Lobo, a Pan Am flight attendant for 26 years. Many others insist Shugrue has a shot. "People are underestimating this thing," says Robert Gould, SH&E's managing director of aviation safety, who worked for Shugrue at Pan Am and Eastern. "I think he's going to make a go of it." If so, chalk up one more first for Pan Am—reincarnation.

By Gail DeGeorge, with Ivette Diaz, in Miami

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BIOTECHNOLOGY

IS SMITHKLINE'S FUTURE IN ITS GENES?

R&D chief Poste is racing ahead in gene-based drugs

George Poste never lacked drive. The son of a British auto mechanic, he reached the Formula 5000 racing circuit by his early 20s. But as he was speeding around a German track in 1971, Poste had a horrendous crackup. In addition to broken bones, he suffered a crushed nerve in his larynx, forcing him to relearn to speak. It wasn't the 10 weeks in the hospital that ended his racing, though. "It was the realization that I had no chance of being a superstar," he says.

These days, Poste is shooting for a different kind of stardom. As research chief of London-based SmithKline Beecham PLC (SB), he closed a controversial $125 million deal in 1993 with Human Genome Sciences Inc. (HGS) in Rockville, Md., giving SB dibs on the largest database of human-genetic information in the world. Now, he's racing to capitalize on that. He wants to make genomics—the study of genes and their role in health and disease—the technology underlying SB's drugs, diagnostics, and consumer businesses. By doing so, he hopes to make SB an industry leader.

That won't be easy. The $11 billion Anglo-American company is only the world's 10th largest in terms of drug revenues, down from No. 3 in 1989, after a wave of industry mergers. Although SB has 4,200 scientists and R&D staffers divided between Britain and the U.S., its $1 billion R&D budget is shrinking compared with the outlays of its rivals. Some insiders even wonder whether the outfit is big enough to go it alone.

That's why Poste, a confessed caffeine addict who drinks up to 30 cups of coffee a day, is pushing SB's scientific pedal to the metal. He figures SB has two to three years left to wring value from HGS's genetic data before rivals catch up. So he's forging alliances and shifting his core research and development group into high gear. Even before the genomics kicks in, SB is producing at least two novel drugs and one vaccine per year. It has 23 compounds in late stages of human testing or awaiting approval—more than any other company. That has pushed SB's stock up 50% since last March—to $10.92.

JUMPING CURBS. For Poste, that's not enough. "Is this a pressure-cooker organization? Unequivocally. But that's the landscape of the times," says the research chief, who has been known to fly into eye-bulging rages and terrify passengers when he's behind the wheel by jumping curbs to get to his destination faster.

Poste, 51, has been as quick to shift gears in his career as in his car. He earned a degree in veterinary medicine in 1966. But after spending eight weeks tending to cows and sheep on the English-Welsh border, he called it quits. He got a PhD in virology at the University of Bristol in 1969, then taught at the State University of New York at Buffalo. In 1980, SmithKline and French Laboratories lured him away. Nine years later, its parent SmithKline merged with Britain's Beecham, and Poste became No. 2 in the combined lab, rising to become research chief in 1991.

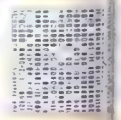
A voracious reader with a near-photographic memory, Poste also has persuasive powers that even competitors salute. "He's just a phenomenal speaker with a real vision of what the world is going to look like," says Randall W. Scott, chief scientific officer at Incyte Pharmaceuticals Inc. in Palo Alto, Calif.

Poste's forcefulness served him well in the early 1980s when he persuaded his bosses to let him recruit the National Institutes of Health's Martin Rosenberg, a protein expert. The result in 1989 was Engerix-B—one of the first genetically engineered hepatitis-B vaccines, with $613 million in sales last year.

Poste took another flier on Human

1 SmithKline Beecham (SB) scientists pioneered a method for collecting bone-destroying cells called "osteoclasts." They extracted messenger RNA from the cells and made DNA copies.

2 Human Genome Sciences (HGS) sequenced the DNA, and "bio-informaticians" compared it with DNA in the company's vast database of human and animal genes. The researchers identified a gene that's active only in the osteoclasts, sequenced the gene, and handed it back to SB.



; **GAMBLE:** *If Poste's strategy is ong, it means "a lot of dead ends"*

nome Sciences. In mid-1993, he got s board to pay $125 million for 7% of company and exclusive commercial ess to most of its data. Rivals were ptical. At the time, the data's value s unclear. Glaxo, for one, declined to est in HGS, says Colin Dykes, its genics chief in Britain, because of the inting "struggle to make sense out of untains of sequenced information."

Poste coped with the data overload hiring "bio-informaticians," who are uipped with powerful computers to p locate genes by searching for patns in DNA sequences. With 30 such entists already, SB aims for 50 by rend. It has just nabbed one of the

Genomics has not led to a single blockbuster drug so far. Yet by 2000, Poste expects to base all of SmithKline's drug-discovery programs on it

best—Randall F. Smith of the Human Genome Center at the Baylor College of Medicine.

Genomics has yet to lead to a single blockbuster drug. Yet Poste has based 25% of SB's drug-discovery programs on it and expects to base all of them on it by the year 2000. The idea is that systematic database research can lead to the discovery of genes with previously unknown roles in disease. Those discoveries can then be used to develop drugs to act on the genes or their corresponding proteins. It's a gamble. Says Ian Smith, a former Beecham scientist who's now a Lehman Brothers Inc. drug analyst: "If he's wrong, the company could run into a lot of dead ends."

For now, SB has a clear lead. HGS has sequenced about 850,000 fragments of DNA, which represent pieces of about 85% of the genes in the human body. In contrast, a Merck-funded group at Washington University in St. Louis had about 355,000 sequences through January. SB claims to have a two-year lead, but Merck boasts of wider collaborations in the academic community.

Putting its genomics expertise to work, SB is racing ahead with a drug developed from analysis of a gene that causes a form of osteoporosis (diagram). The compound may enter clinical trials within a year, although a commercial drug is still years away, says SB's Rosenberg. By the turn of the decade, SB hopes to market tests that would diagnose diseases by detecting changes in the way genes are turned on and off. While diagnostics itself is a small market, the underlying science could also lead to new treatments.

Meanwhile, SB and its collaborators are patenting genes like crazy—filing nearly 200 of the 450 human-gene-based patent applications that have been filed so far in the U.S. One is for a gene involved in atherosclerosis. HGS's database compressed what would have been a yearlong gene hunt by 5 to 10 researchers into a 24-hour computer exercise.

At the same time as SB hunts for genes, it is developing a fast way to test the effectiveness of both gene-based and conventional drugs. That work is being done by Orchid Biocomputer, a joint venture set up last fall by SB and the David Sarnoff Research Center in Princeton, N.J. By 1998, Orchid wants to put 10,000 microscopic test tubes, along with computer-controlled pumps and sensors, on chips the size of business cards. In a few hours, the chips would make 10,000 chemicals and then screen them against biological targets. Poste figures SB's chemists will be able to test 5 million chemicals a year, 500 times as many as now.

"TOUGH BOSS." Poste wants to shorten the time it takes SB to bring drugs to market. Every week of development costs the company $11 million in lost revenue on a big-selling drug. His goal: to squeeze development time to just under 5.5 years—down from 7.8 now and more than 9 in 1991. "He's a very tough boss who sets tough deadlines," says Paul Nicholson, SB's senior vice-president for worldwide development.

That's for sure. "People know when they give me a stupid or superficial answer," he says. Since becoming boss, he has cut the R&D organization by nearly a quarter, axing 1,300 people who he felt were redundant or had not signed on to his vision. "This hasn't always made me the most popular guy in the organization," he concedes.

Still, he has invigorated the company. Before he took over, "they had all that biology but no breakthroughs," says biotech pioneer George B. Rathmann, founder of Amgen and now chairman of ICOS Corp. in Bothell, Wash.

Five years from now, Poste sees himself spending more time at his house in the Arizona desert, writing about technology or driving the Humvee that he recently mired in three feet of water in Arizona's Verde River. With his drive, five more years may be all the time Poste needs to make SmithKline Beecham a genomic star.

By Julia Flynn in London, with John Carey in Washington, Joseph Weber in Philadelphia, and Joan O'C. Hamilton in San Francisco

researchers ermined the ucture of ymes ted with e. They ed for chemi- at fit into the s' folds and inhibit their bone- ing action. These chemicals are ing developed as potential drugs.

And In The Future...

SB and the Sarnoff Center hope to develop a revolutionary silicon chip the size of a business card, containing 10,000 tiny test tubes. The chip would speed testing of new drug candidates.

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SPEAKERS THIN AS WALLPAPER

IMAGINE A LOUDSPEAKER so thin that it can fold from the lid of a notebook computer. Or so flexible it can be formed into a lampshade. That's what MZX Inc., a startup in Newbury Park, Calif., has developed.

It's a new type of electrostatic speaker. Such speakers are often found hanging on walls because they're no thicker than a painting. But MZX's are more like wallpaper. They can be as thin as 10 thousandths of an inch, says MZX founder Claus E. Zimmermann. Their construction is simple: Two sheets of conductive film, such as metallized plastic, surround a nonconductive layer, which can be rubber or even a smear of Vaseline. Stretch this sandwich in a frame and attach thin, perforated-aluminum electrodes. Voilà! When an audio signal is fed to the electrodes, the sound "leaks" from the perforations and generates hi-fi vibrations in the speaker.

Zimmermann's company was awarded its initial patent last year. Now, several computer and cellphone makers are getting ready to unveil new products featuring the ultrathin speakers.

KEEPING CHIPS FROM BLOWING THEIR COOL

THE FASTER CHIPS RUN, THE HOTTER THEY GET. WITHOUT little cooling fans mounted on top, Intel Corp.'s Pentium-chip "brains" would suffer a heat stroke. Trouble is, fans can remove only about 40 watts of heat per square centimeter. But when future chips get up to speeds of more than 250 megahertz—Pentiums now top out at 166—they'll need to be cooled by 50 watts or more.

To prepare for that day, Purdue University's Issam Mudawar, a professor of mechanical engineering, has developed a technique to embed thermal microchannels in printed circuit boards. Hundreds of watts of heat can be sucked away by a special liquid flowing in the channels. Mudawar has constructed prototype systems for the Air Force that are 10 times cooler than the air-cooled avionics in today's warbirds.

Meanwhile, at the mid-February Uniforum 96 computer show in San Francisco, Superconductor Technologies Inc. showed off a frosty concept that chills chips to –55C or below, using a small cryogenic cooler. Heat is siphoned out through a so-called heat pipe, or heat exchanger. At such temperatures, microchips outdo themselves because transistors switch on and off faster. The Santa Barbara (Calif.) company says its device can boost the speed of computers by 50% or more. Commercial Data Servers Inc. in Sunnyvale, Calif., has ordered the coolers for a line of superfast "cold-computing" mainframes.

PATCHES FOR ELECTRONIC EROSION

AS MICROCIRCUIT LINES SHRINK, ELECTRONS WHIZZING along the edges of ultratiny circuits could scrape away surrounding silicon atoms, much like streams dislodging rocks from mountainsides. This already happens, but in today's fatter lines, most electrons flow in the center, so it takes years for electron erosion to cause a failure. With tomorrow's wispy lines, however, glitches might occur in just months.

Researchers at the University of Illinois' Beckman Institute believe they've found a simple fix: Use deuterium instead of hydrogen for the so-called annealing step. Normal annealing puts silicon-hydrogen patches on atomic-level defects that occur during some chipmaking operations. But silicon-deuterium bonds turn out to be 10 to 50 times stronger—an unexpected result, since deuterium is just an isotope of hydrogen. The university has applied for a patent, and chipmakers are lining up to use the technology.

INNOVATIONS

■ Low-fat french fries? That may not be an oxymoron. Ranjit Kadan, a food technologist with the Agriculture Dept.'s Southern Regional Research Center in New Orleans, has developed "nice fries." They're really rice fries—fortified rice flour extruded like big, square spaghetti. Surprisingly, they cook up with only half the fat of the potato variety. Kadan is not sure why. But their taste still needs work, he admits.

■ While studying dental disease in baboons, researchers at Johns Hopkins University discovered that bone-morphogenic proteins—substances that promote bone growth—can also help heal damaged gums. This unexpected finding suggests the proteins may be useful in treating gum disease. Among older people, gum disease is a leading cause of tooth loss.

■ With the abundance of chemicals in manufacturing plants, it's all too easy to inadvertently mix up a noxious brew. So the American Institute of Chemical Engineers twisted arms at Dow Chemical Co., and the two organizations plan a March unveiling for ChemPat, an expert-system software package developed by Dow for internal use. ChemPat knows about the compatibility of chemicals and has been a valuable tool for Dow in developing safe chemical processes.

■ People tired of Canada geese dropping you-know-what might want to drop some grapelike flavoring on the grass. Wildlife experts at Cornell University say that the geese are put off by grass sprayed with methyl anthranilate.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwmar@businessweek.com

FASHION

IS THAT A ZEGNA YOU'RE WEARING?

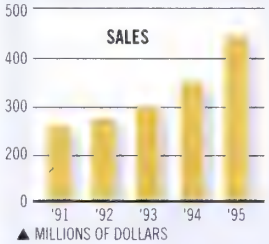
Why Italy's hottest menswear maker is so hot

Could Houston Rockets center Hakeem Olajuwon, King Juan Carlos of Spain, and members of O.J. Simpson's Dream Team possibly have anything in common? Maybe just their fashion sense: All wear $1,500 suits and $105 ties made by Italian menswear group Ermenegildo Zegna.

Move over, Giorgio Armani. Zegna, an 85-year-old family-owned company based in Trevero, at the foot of the Italian Alps, is carving out a sizable slice at the top end of the U.S. menswear market, where two-piece suits sell for $1,000 and up. Strictly a textile company for its first 40 years, Zegna still supplies fabric to some of Europe's top fashion houses. But now, it offers its own clothing line as well. "With Zegna's fabrics and Zegna's look, the clothes are half sold before you take them off the hanger," says Murray Pearlstein, owner of Louis Boston, a high-end Massachusetts clothier. "Right now, they are the hottest."

This year, Zegna's three U.S. stores—in New York, Beverly Hills, and Costa Mesa, Calif.—as well as its 20 U.S. in-store boutiques at outlets such as Louis, are set to ring up $100 million in sales, a 30% increase over 1995 revenues. And Zegna has recently edged out rival Armani as the largest menswear supplier to Neiman Marcu Worldwide, Zegna racked up $500 m lion in sales last year, making it one the fastest-growing fashion groups Europe (chart).

ZEGNA FASHIONS SOME STRONG GROWTH



DATA: COMPANY REPORTS

MADE FROM SCRATCH. Zegna h achieved its success by breaking some the cardinal rules of the rag trade. A mani and most other luxury appar brands, for example, farm out almo all their manufacturing. But Zegna n only puts together its own clothes— plants in Italy, Spain, and Switzerland but also spins the yarn and weaves t cotton, cashmere, and wool fabrics th go into its garments.

While many of i competitors have e panded through franch ing, Zegna has aggre sively established i own shops in top loc tions around the worl With new stores open last year in Barcelon Lisbon, Vienna, a other places, Zeg currently has 30 of i own outlets, along wi around 120 closely ma aged in-store boutique

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he fact that they can ke their fabrics, pro- ce their clothes, and n their stores gives m an advantage be- se they can manage the ply chain," says Yoram tgeld, a textile consul- t at McKinsey & Co. his is a business where have a very high de- e of complexity."

Unlike Armani or Hugo ss, Zegna has shied ay from licensing its ne. Although royalties m colognes, bedsheets, l underwear can bring easy money—about 30% Boss's $620 million in es last year came from nsing—it also can wear vn a brand's cachet. Zegna can't af- d any erosion: With prices on a par h top-of-the-line Armani and higher n Boss, it serves an exclusive cus- ner segment. "Retailing is still the t way to go for us because licensing es away from the exclusivity," says year-old Gildo Zegna, part of the rd generation of the Zegna clan that is the closely held company. His her and uncle, who still head the siness, oversaw the expansion into apparel in the 1950s. In the late 1970s, they sent Gildo to work in Bloomingdale's in New York for a year to learn about American retailing. Now, he's applying those lessons as Zegna opens its own stores.

TIES FOR $105: *New York boasts one of three U. S. Zegna stores*

STRETCH CASHMERE. Zegna also keeps ahead by using innovative fabrics. Because it has its own $70 million textile division—which was originally the heart of the company—it can be the first to offer novel fabrics such as cashmere corduroy or Microtene, a lightweight water-resistant cloth that it started using last year in its sportswear line. Later this year, it will offer $1,500 sport coats made of stretch cashmere. "Whereas Armani is positioned as style, Zegna is positioned as having the best quality and most innovative fabrics," says McKinsey's Gutgeld.

In the U. S., Zegna has been helped by the move away from boxy Ivy League suits. European designers such as Zegna, which offers a sleeker look in suits along with deconstructed "casual Friday" wear, have taken market share away from homegrown outfitters such as Brooks Brothers and Hickey-Freeman, a subsidiary of Hartmarx Corp. And although the total American suit market has shrunk, the upper end is still growing. "We are all benefiting from this trend," says Andreas Kurz, CEO of Hugo Boss USA. Of course, this is still the fashion world, where trends can change overnight. But right now, Zegna is looking sharp.

By John Rossant in Trevero

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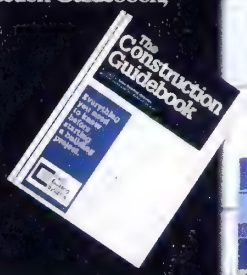

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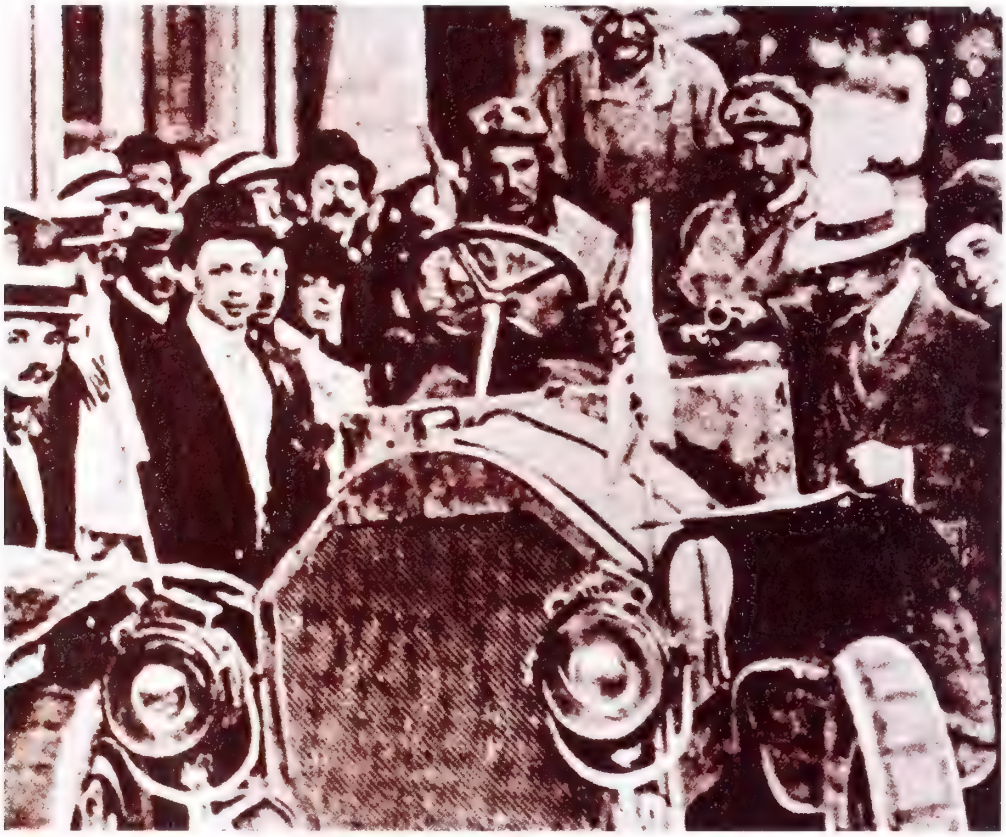

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MARKET REGULATION

NASDAQ: POWER TO THE PEOPLE?

The SEC plans a radical overhaul to give the little guy a fair shake

When the new NASDAQ Stock Market opened for business in 1971, it was heralded as the market of the future. Instead of face-to-face haggling at the existing exchanges, it featured a new electronic stock-quote system. Since then, NASDAQ has grown astronomically to become the world's second-largest market, after the New York Stock Exchange. For all its expansion and technological advances, though, NASDAQ is increasingly in the spotlight for its failings instead of its strong points. As the market has evolved, it has tilted further away from the small investor in favor of brokerage firms, who make huge trading profits, often at the little guy's expense.

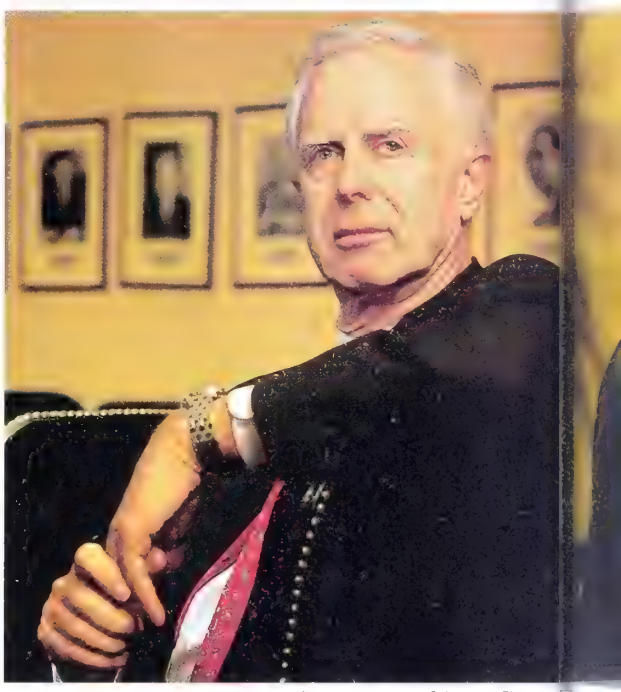
Not any longer, if Arthur Levitt Jr. has his way. The Securities & Exchange Commission chairman is personally overseeing a revolutionary overhaul that could drastically change and improve the way NASDAQ does business.

Part of what might be called Levitt's Crusade is aimed at breaking down the clubby way NASDAQ is governed. But Levitt's prime goal is shifting the advantage away from the professionals back toward small investors. The SEC is mulling new rules mandating that small investors in all stock markets have the same access as the pros to the best stock prices. In any given trade, the small investor might only come out a few dollars ahead. But cumulatively over a year, the difference could amount to many billions. "You are talking about major, major changes overnight," says Michael Murphy, senior director at Morgan Grenfell Capital Management Inc.

FAVORITISM. Because offering better prices to small investors on NASDAQ will take a big chunk of trading profits out of broker-dealers' pockets, many NASDAQ dealers are skeptical, even angry, about the changes. But in the long run, the rules should force NASDAQ to become a far more efficient trading system. With its superior electronic capabilities, NASDAQ will be in a much better position than less automated exchanges to turn the rules to its advantage. Says Harold S. Bradley, head trader at the Twentieth Century mutual fund group: "If NASDAQ does that, it may surpass the New York Stock Exchange and truly become the stock market of the 21st century"—something NASDAQ has relentlessly promised in its ads but has yet to deliver.

Levitt's method for achieving these changes, though, flies in the face of the prevailing deregulatory ethos in Washington. Although the SEC has the power to implement these rules, which are scheduled to be recommended in some form by the staff for commissioners' approval by May, they are certain to encounter intense criticism. Still, Levitt is likely to prevail. "It's almost like a regulator designing a car for General Motors," says Robert A. Schwartz, a finance professor at New York University.

NASDAQ's favoritism toward pros and big investors is rooted in its system of about 500 broker-dealer firms, who buy and sell stock among themselves to complete investors' orders. For each NASDAQ stock, small groups of dealers advertise "bid" and "ask" prices, which are displayed on a national network of electronic quote machines. Generally, investors must sell at the quoted bid price and buy at the ask price.



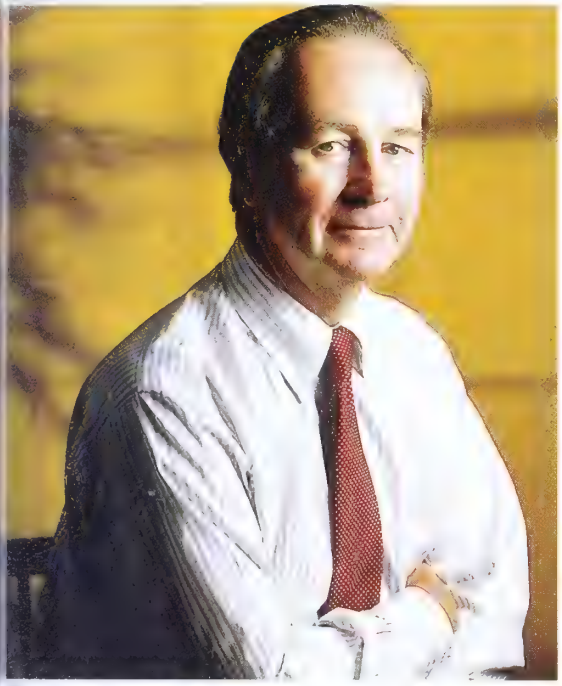
ARTHUR LEVITT The SEC chief says his plan to "level the playing field" for small investors will attract more players and increase liquidity

Since last October, though the Justice Dept. has been investigating whether dealer firms who trade the same stock sometimes conspire to set an artificially wide "spread"—the difference between the bid-ask price. The incentive: Dealers make profits on trading shares inside the spread, often buying for less than the advertised ask price and selling for more than the bid price. The dealers keep the difference—usually at least an eighth of a point, or 12.5¢, and often more. For instance, if Apple Computer Inc. stock is quoted at $27.75 ask and $27.50 bid, a dealer might buy it from another dealer for $27.5[illegible] and sell it to a customer at the high price of $27.75, pocketing the difference.

The ability of brokers to strike favorable deals at prices better than the spread has become more prevalent wi[illegible]

advent of new electronic markets h as Instinet, owned by Reuters ldings PLC. These offshoot electronic tems are a quick and anonymous y for big traders to buy and sell ck at prices better than the quoted SDAQ spread. But only the biggest yers—broker-dealers and tual-fund traders—have ac- s to these systems. NASDAQ lers are the biggest users, ing and selling stock at es superior to their own ad- tised quotes.

The individual investor comes short in another way, when or she submits a "limit or-



"—a request to buy or sell at a spe- c price inside the dealers' quoted ge. These orders are regularly ig- ed because more competitive offers uld narrow dealers' spreads and cut fits.

The SEC has been debating for years w to direct the National Association Securities Dealers, which oversees SDAQ, to fix these flaws. Levitt's new es should go a long way toward re- cing the dealers' edge.

A major proposed change requires lers to update their bid-ask quote if y have made a better offer on an- ier market, such as Instinet. That uld cause dealers to adjust their ad- rtised quotes and effectively narrow spread, allowing investors to trade those better prices. A second rule uld require dealers to broadcast cus- ner limit orders to the market when y are offering a better price than one being quoted in the market. blicizing limit orders will improve all investors' chances of locking in the price they want. A third rule would force dealers to try to nail down a better price for customers than the price quoted in the market.

Many dealers and academics worry that the SEC's meddling could stifle innovation and competition—and undermine NASDAQ's strength. Narrowing spreads in the thinly traded and often volatile stocks in which NASDAQ specializes, traders argue, could reduce their incentives to make markets in these stocks. Ultimately, they caution, that could reduce liquidity in a market that last year traded 100 billion shares worth $2.4 trillion. The rules will mean "existing liquidity and price continuity will be irreparably harmed," Merrill Lynch & Co., a big NASDAQ player, warned the SEC.

Levitt counters that the rules will only improve NASDAQ and other markets. He insists that the changes simply "level the playing field." And removing the advantage dealers have over small players, he says, will attract more market participants and increase liquidity. "This will strengthen NASDAQ," he asserts.

He does not dispute, however, that the changes will hit many NASDAQ dealers in their pocketbooks. A comment on the proposed changes from the American Stock Exchange, a NASDAQ competitor, estimates that artificially wide spreads cost investors $9 billion a year—which ends up in broker-dealers' pockets. "The guys that just scalp eighths and quarters won't be there anymore," says Morgan Grenfell's Murphy.

JOE HARDIMAN The NASD chief executive says the proposed rules go too far too fast. "I believe we should take steps one at a time"

Admitting that NASDAQ dealers will get hurt, Joseph R. Hardiman, chief executive of NASDAQ and its operator, the NASD, says the SEC rule proposals go too far too fast. The NASD supports advertising limit orders and has a proposed new system, NAQcess, designed to do just that. "The SEC rules have sparked strong debate as to the future structure of the equity markets. That's healthy," Hardiman says. "But I believe we should take steps one at a time."

SNOWBALLING REFORM. Still, NASDAQ knows the reform sweeping the markets can't be stopped. It's preparing for more changes. Earlier this year the NASD quietly formed a task force, headed by NYU's Schwartz, to study additional improvements to NASDAQ. One of the initiatives, which was recommended by the Justice Dept., would make NASDAQ more competitive. A panel of institutional traders and NASDAQ dealers is examining a proposed system that

FIXING NASDAQ

New rule changes being formulated by the Securities & Exchange Commission would bar trading practices that discriminate against individual investors

How NASDAQ operates today	How the SEC would improve the market
• Traders can use electronic trading systems like Instinet to get better prices for their own trades than those available to small investors on NASDAQ.	• Would force all market makers to show the prices they are quoting on any trading system. That would give small investors access to better deals.
• Traders who receive limit orders, offers from investors to buy or sell a stock at a fixed price, can hide those orders from the market and may not always execute them.	• Would require market makers to show limit orders when the quote matches or is better than current quote, raising chance that order will be filled.
• If an investor puts in an order to buy or sell a stock, it is generally filled at the current market price. Market makers are not required to try to get customers a better price.	• Would make sure that market makers attempt to get customers a better price. Dealers would have the option to choose how to execute the order.

SOURCE SECURITIES & EXCHANGE COMMISSION

would electronically set prices at the opening bell of each trading day. Known as a "call market," the electronic system would batch together orders that accumulate overnight and match them, in the process setting a new morning price. Currently, broker-dealers tend to reset prices each day by being the first to execute a trade in individual stocks, a somewhat artificial and often inaccurate system for opening trading.

CONFLICTS OF INTEREST. The rule changes are just one part of Levitt's campaign to fix NASDAQ. Many of the changes have been spurred by the SEC's investigation into possible dealer trading violations and the NASD's lax oversight. Levitt declined comment on the investigation. But he says of the market's overhaul: "To have NASDAQ emerge from this unhappy process as a stronger enterprise, viewed by their various constituents as a fair and innovative marketplace, a lot of changes have to take place."

The biggest issue: better policing of the NASDAQ market. The existing system is rife with potential conflicts of interest, because the NASD serves as both the operator of the stock market and the first-line regulator of more than 500,000 brokers.

At Levitt's urging, the NASD board accepted in principle reforms that were recommended by a panel headed by former Senator Warren Rudman (R-N. H.). Under the reorganization, the NASD will become a holding company with two relatively autonomous subsidiaries: the NASDAQ market itself and an entity called NASD Regulation Inc., which will police not only NASDAQ dealers but also 5,000 other U. S. securities firms. Levitt has personally recruited big-name candidates for the expanded board, including Merrill Lynch Chairman Daniel P. Tully and Goldman Sachs Chairman Jon S. Corzine. Merrill and Goldman declined comment.

> Small investors will have access to the same stock prices as the professionals

At the speed with which Arthur Levitt is moving, NASDAQ just may have something to celebrate when the 21st century rolls along.

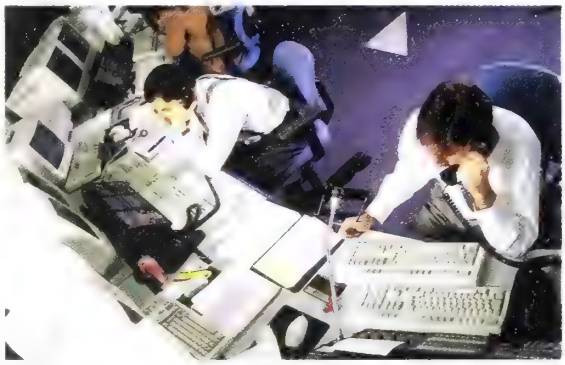
By Michael Schroeder and Amy Barrett in Washington

COMEBACKS

'THE BARINGS NAME HAS BEEN RESTORED'

A scant year after the Leeson scandal, ING Barings is back

Hessel Lindenbergh hasn't slept much the last year. His employer, Dutch banking and insurance giant Internationale Nederlanden Groep, took over bankrupt Barings PLC in March of 1995 after Singapore trader Nicholas Leeson stuck the company with $1.4 billion in losses. It fell to Lindenbergh, then head of ING's international operations, to integrate the two staffs and get Barings back on its feet.



DESK DRIVE: *ING opened three trading floors in '95*

By most accounts, Lindenbergh, 53, has done a great job even though ING Barings Ltd.'s 1995 results are likely to be disappointing when its parent announces earnings on Mar. 28. But with emerging markets on the mend lately, the Anglo-Dutch investment bank is expected to show a profit for '96. Says Frederic Haller, head of rival Deutsche Morgan Grenfell's emerging markets division: "The Barings name has been restored."

TURNING TIDE. The renaissance took place in the toughest of environments. Throughout 1995, much of ING Barings' highly paid securities staff sat idle as emerging market bourses suffered the "Tequila effect" of the Mexican peso devaluation. At the same time, Lindenbergh slapped tight controls on traders in Asia in the wake of Leeson's crime.

Then the tide turned. As global interest rates started falling, investors returned to emerging markets, where both ING and Barings have long been strong. At the same time, the London-based Baring Brothers corporate finance team made an astonishing comeback in Britain's red-hot takeover market. Baring Brothers & Co. took leading roles the country's two biggest mergers the year: the marriage of drugmake Glaxo and Wellcome and the pairing TSB Group and Lloyds Bank. Altogeth the Barings bankers gave advice on $ billion worth of deals. "Looking fo ward," says Lindenbergh, "all the si nals are positive."

ING Barings is pulli ahead of competitors in oth areas. Drawing on ING's e pertise in debt markets, I Barings is now one of t top 10 traders of emergin market debt. And despite slow year in Asian sto markets, the bank manag 39 equity issues last ye Now, Lindenbergh has ev bigger plans. He will try use relationships with cor rate clients and large pe sion funds to win new bu ness. The parent compa opened three new trading floors in Me ico City, London, and New York. Linde bergh may also expand further in t U. S., where ING Barings lacks a stro presence. ING came close to acquiri Oppenheimer & Co. before Barings f into its lap. But U. S. growth "will the next phase," he adds.

Lindenbergh is also holding ING Ba ings to the same profitability standa imposed on the rest of the company— 11% return on equity. Some analys consider that modest for a high-ris emerging-markets business and pred that ING Barings will have little troul meeting it if emerging markets rema robust. If not, the company can afford wait. With assets of $245 billion, t group is No. 3 among European insu ers, while its ING Bank unit is No. 5 Europe. In 1995's first nine months, I reported pretax profits of $1.7 billion, 17% from the same period in 1994. A alysts are forecasting full-year pret profits of $2.4 billion.

With ING Barings gaining momentu Lindenbergh clearly has reason to sle better. Considering Barings' recent plig its recovery is little short of miraculo

By Paula Dwyer in London, w bureau reports

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MONEY MANAGERS

THE LONELINESS OF THE LONG-DISTANCE BEAR

Sooner or later, Henry Van der Eb figures, he's got to be right

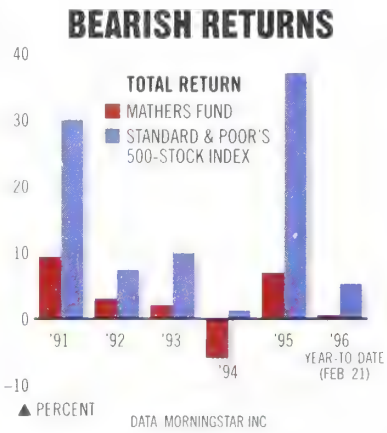
These are boom times for most growth-stock portfolio managers. A surging market has made investing in equity funds more popular than ever. But for superbear Henry G. Van der Eb, this market is torture.

For more than five years, Van der Eb's $220 million Mathers Fund has braced for disaster, holding at least 50% in cash and betting against the market by selling stock-index futures short. And for more than five years, the market has raced to ever greater heights. While Mathers has outperformed the Standard & Poor's 500-stock index by two percentage points over the last 30 years, the last five years have been an utter disaster: From 1991 to 1995, the fund has trailed the S&P 500 by 75 percentage points (chart). In 1995, it gained 7%, compared with the S&P's 37.5% gain. And so far in 1996, Mathers Fund is up 0.1%, compared to the S&P 500's 5% rise.

TOLL ROAD: *Van der Eb has seen his fund's assets dive*

FALLOUT SHELTERS. No wonder Van der Eb and similar stock market Cassandras are losing shareholders. Premier bear funds such as Mathers, Dreyfus Capital Value, and Comstock Partners Strategy have seen their assets wither since the early 1990s. Assets in the Mathers Fund, which is based in suburban Chicago, have plunged more than 60% from a peak of $554 million in 1992. Most of the die-hard clients who remain are seeking insurance: Investors put a few bucks into such financial fallout shelters to hedge against a rerun of 1987, when the bears cashed in on the market's crash.

After missing out on such a phenomenal rally, is Van der Eb tempted to join the ranks of the bulls? No way. He believes his ultradefensive strategy will soon pay off. The stock market is overvalued by 50%, he figures, and a big correction "has got to be close." According to him, "every day that goes by is a day closer to the day of reckoning." Fellow bear Charles L. Minter, comanager of the Dreyfus Capital and Comstock Strategy funds, cites parallels between today's stock market and the heady days before the 1929 crash. And while some market watchers see the recent runup in gold-mining stocks as a speculative blip, Van der Eb expects demand for the metal to soar; gold becomes a more attractive alternative to what he sees as overvalued financial assets.



Van der Eb's apocalyptic views are at odds with those of most market experts. Conventional wisdom holds that a growing economy, low inflation, declining interest rates, healthy corporate profits, and a huge inflow of retirement savings will power the market to new highs. Market guru Elaine M. Garzarelli of Garzarelli Capital Inc. puts it this way: "There's nothing wrong with this market. The bears are all wrong."

ACHILLES' HEEL. The 51-year-old Van der Eb caught the bout of bear fever back in 1991, when he bet that corporate earnings would collapse. In fact, earnings surged. Now, he says, the time has finally arrived when earnings shortfalls will take the market down. "That's the Achilles heel, without a question," he says. The benefits of a weak dollar and extensive cost-cutting have run their course, he says. The economy is slowing, and pricing power is nonexistent. And debt-laden consumers, he contends, have exhausted their ability to spend.

To exploit those trends, Van der Eb holds 51% of his portfolio in U.S. Treasuries with an average maturity of 3 years and another 8.5% in defensive gold stocks such as Homestake Mining Co. He has about 10% in a few stocks he believes in, such as insurer Conseco Inc. and ICN Pharmaceuticals Inc. The balance is spread among issues he considers undervalued. He hedges these holdings by selling S&P 500 futures, a practice that has hurt lately: "Like sitting a buzz saw," he moans.

For many investors, though, the question is: Why bother with bear funds at all? Bears can simply keep their money in cash and avoid paying management fees to the funds. "I can't see the use" of these funds, says Morningstar Inc. publisher John Rekenthaler. "In a bear market, I'd rather just own cash."

Van der Eb counters that his fund can shine by taking advantage of market turmoil: He racked up a 27% gain in 1987, when the S&P 500 rose 5.7%. "You're buying that ingrained ability to go against the tide," he says. The hard part is staying afloat when the tide seems to be sweeping you out to sea.

By Greg Burns in Bannockburn, Ill.

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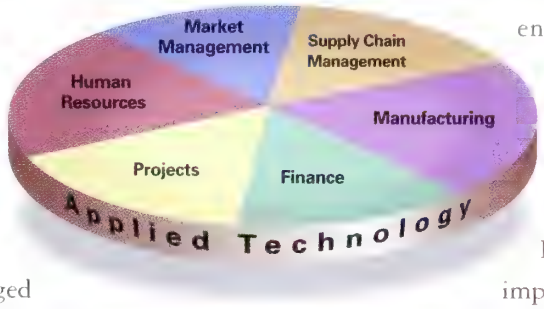

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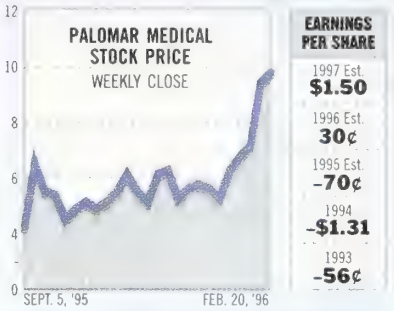
BY GENE G. MARCIAL

MORE ZIP FROM ZAPPING HAIR

Palomar Medical Technologies (PMTI) is red-hot. When this maker of laser systems for hair removal and cosmetic surgery was first featured in this column (BW—Sept. 18), its shares had just doubled, from 2 to more than 4. Since then, they have zoomed to almost 10. Some investors have headed for the exits, convinced that the stock has peaked. But others disagree: They see it hitting at least 20 in a year. What's fueling their bullishness?

LASER-SHARP PROFITS AHEAD?



DATA: BLOOMBERG FINANCIAL MARKETS, NELSON PUBLICATIONS, BW SURVEY

They're betting that Palomar, awash in red ink for so long, will start making money this year. They think analysts' 1996 earnings estimates of 30¢ to 40¢ a share could be on the low side.

In a month or two, they expect the Food & Drug Administration to approve Epilaser, Palomar's system for hair removal. So they see the company shipping Epilaser to customers faster and in bigger numbers than Palomar's earlier estimates accounted for.

On Feb. 10-15, Palomar unveiled a prototype of Epilaser at a meeting of the American Academy of Dermatology in Washington. "We received at least 500 legitimate inquiries for our laser systems," says Palomar Chairman Steven Georgiev. The company will market Epilaser mainly through dermatologists and cosmetic surgeons.

Thermolase, the only rival that has FDA approval for laser hair-removal, operates one salon—in La Jolla, Calif. Like Palomar, Thermolase has yet to make a penny, but its shares have risen from a split-adjusted 3 in 1993 to 25, for a capitalization of more than $1 billion, vs. Palomar's $145 million.

Palomar has a perpetual worldwide licensing pact with Massachusetts General Hospital to market the hospital's patent-pending technology for laser hair removal. The agreement grants Palomar direct access to the hospital's clinical data on the safety and efficacy of its process.

One analyst says laser treatments have emerged as an important field in health care. That's why, he says, Palomar is trying to link up with a large health-maintenance organization as another outlet for its products.

Palomar recently bought privately held Tissue Technologies, which has an order backlog of $20 million for its wrinkle-removal laser. Georgiev notes that Tissue is the only company with a full range of FDA-approved products for laser removal of wrinkles, tattoos, skin lesions, and spider veins.

One big bull on Palomar is Travelers Group, which paid $6 million for a 5% stake. Travelers may "seek a larger slice, depending on Palomar's needs and its continued appeal as an investment in a potential growth company," says Jack Rivkin, senior vice-president of Travelers Group, parent of Travelers Insurance and Smith Barney.

IT'S RADIO DAYS IN THE BUYOUT GAME

The Street is listening more closely to the radio these days. What's on? A rash of mergers and acquisitions. That's what investment pros expect to see continuing—since curbs on station ownership are expected to be eased as a result of the passage of the Telecommunications Act. The likely targets, these pros say, are companies that own stations in smaller cities.

One outfit that some analysts believe is an easy mark is Multi-Market Radio (RDIOA), which acquired stations last year in Georgia, Massachusetts, and South Carolina. Multi-Market Radio's shares, now at 9, "reflect neither the acquisition last year of seven stations nor the recently announced proposal to buy 11 of Liberty Broadcasting's 19 stations," says Eric Jay Appell, an analyst at Dabney/Resnick, an investment firm in Beverly Hills, Calif. Based on projected 1997 broadcasting cash flow, Multi-Market Radio's stock should hit 20 in two years, says Appell.

One San Francisco money manager believes that Multi-Market Radio—which he calls the cheapest radio company around—is being eyed by Emmis Broadcasting and Evergreen Media. Emmis owns one AM and seven FM stations. Evergreen runs 35 stations in 10 markets, including Chicago, Dallas, Los Angeles, New York, and San Francisco.

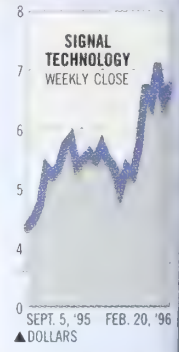
Most of the buyouts, notes Appell, have occurred in radio's top 30 markets. But Multi-Market's focus is on the less active but equally lucrative smaller markets.

ARMS AND THE PROFITS

You might think doing business with the cutback-stricken defense Establishment would be a losing game. Untrue. Big operators such as Lockheed Martin and Raytheon are making big bucks, and even some small fry are doing well. Take Signal Technology (STZ), whose shares have rocketed from 3 to 6 since mid-August. Money manager Scott Black sees them hitting 12 in a year, based on Signal's widening profit margins and rising sales. Right now Signal has an order backlog of $92.[illegible] million, 40% higher than a year ago.

Signal's "secret weapon," says Black, president of Boston's Delphi Management, lies in its technology and its products, which he reckons are well positioned to be a part of Pentagon programs that are sure to be continued.

SET TO SURVIVE THE CUTBACKS



DATA: BLOOMBERG FINANCIAL MARKETS

Since last year, its profit margins have risen from 3% to 7%, notes Black, who figures that the company will earn 65¢ a share this year and 85¢ next, vs. a modest loss in 1995. He sees revenues climbing to $116 million next year, up from an estimated $1[illegible] million this year and last year's $89 million.

Signal's technology for precision control of radio and microwave frequencies is used mainly for ground-based and airborne intelligence and guidance systems for smart missiles. Given the political changes worldwide, the U.S. not relies more on such smart yet lower-priced weapons, says Black.

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HERE COME THOSE SLOW-GROWTH BLUES

Yes, '95 profits grew 16%. But their fourth-quarter drop signals a hard slog in '96

Well, we knew it was too good to last. The soaring corporate profits that put 1994 and early 1995 into the record books are now just a memory. It's time to get used to slower growth again.

Earnings for the 900 companies on BUSINESS WEEK's Corporate Scoreboard slowed sharply from 1994's spectacular 40% gains. For 1995, profits grew at a modest 16% pace. While plenty strong historically—since 1973, annual earnings growth has averaged around 10%—it's unlikely to last. Profits for 1995's fourth quarter fell 6%, the first such drop s the 1991 recession.

Things weren't quite as bad as might seem, however. Big write-off AT&T, McDonnell Douglas, Boeing, several oil companies accounted fo outsize chunk of the fall. In fact, sin

The Leaders in 1995 Sales and Profits

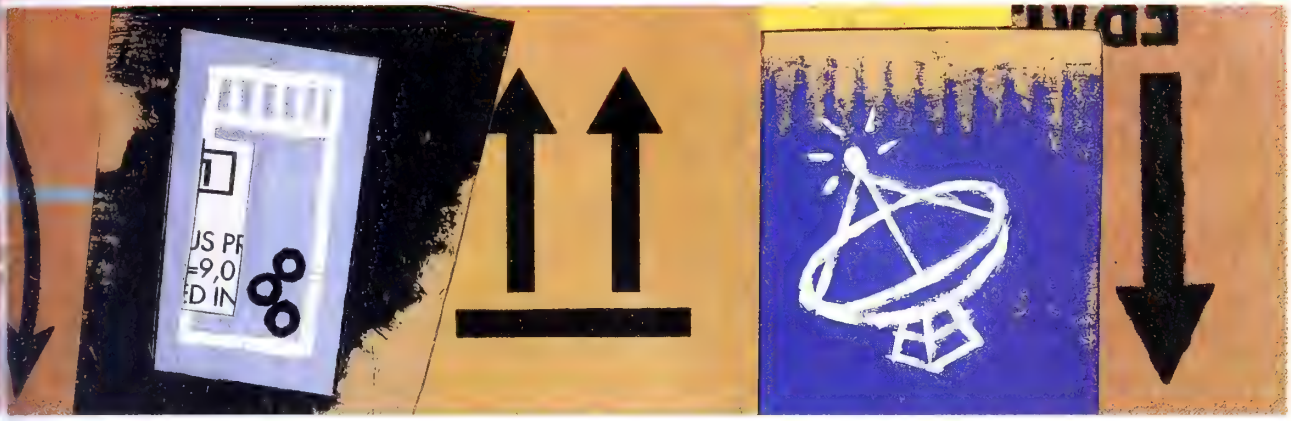
THE TOP 25 IN SALES

	1995 SALES IN MILLIONS	PERCENT CHANGE FROM 1994	1994 RANK
1 GENERAL MOTORS	$168,829	9	1
2 FORD MOTOR	137,137	7	2
3 EXXON	109,620	8	3
4 WAL-MART STORES	90,525	15	4
5 AT&T	79,609	6	5
6 MOBIL	74,879	11	6
7 IBM	71,940	12	7
8 GENERAL ELECTRIC	70,028	17	8
9 CHRYSLER	53,200	2	11
10 PHILIP MORRIS	53,139	–1	10
11 DUPONT	42,163	7	12
12 CHEVRON	37,082	4	13
13 TEXACO	36,792	10	15
14 SEARS, ROEBUCK	34,925	6	9
15 PROCTER & GAMBLE	34,923	11	16
16 KMART	34,572	4	14
17 HEWLETT-PACKARD	31,519	26	20
18 PEPSICO	30,421	7	18
19 CITICORP	28,128	–3	17
20 AMOCO	27,066	4	19
21 MOTOROLA	27,037	22	25
22 CONAGRA	24,637	3	21
23 KROGER	23,938	4	23
24 LOCKHEED MARTIN	22,853	0	NR
25 UNITED TECHNOLOGIES	22,802	8	28

THE TOP 25 IN EARNINGS

	1995 PROFITS IN MILLIONS	PERCENT CHANGE FROM 1994	199 RAN
1 GENERAL MOTORS	$6,932	23	
2 GENERAL ELECTRIC	6,573	11	
3 EXXON	6,470	27	
4 PHILIP MORRIS	5,478	16	
5 IBM	4,178	38	
6 FORD MOTOR	4,139	–22	
7 INTEL	3,566	56	1
8 CITICORP	3,464	1	
9 MERCK	3,335	11	1
10 DUPONT	3,293	21	1
11 COCA-COLA	2,986	17	1
12 PROCTER & GAMBLE	2,835	17	1
13 WAL-MART STORES	2,828	12	1
14 BANKAMERICA	2,664	22	1
15 GTE	2,538	4	1
16 HEWLETT-PACKARD	2,433	52	2
17 JOHNSON & JOHNSON	2,403	20	2
18 MOBIL	2,376	35	2
19 FANNIE MAE	2,156	1	2
20 CHRYSLER	2,025	–45	
21 AMERITECH	2,008	72	4
22 NATIONSBANK	1,950	15	2
23 ALLSTATE	1,904	293	13
24 DOW CHEMICAL	1,891	145	5
25 SBC COMMUNICATIONS	1,889	15	2

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES



ıde the massive $4.2 billion charge ' took to pay for its planned split three companies, and overall fourth- ter profits would have been flat. ill, with the Federal Reserve inter- rate hikes that ended a year ago g into a once-exuberant economy, s abound that the peak is past. Al- gh sales were up 12% for the first e quarters, growth slowed to 9% in ourth. And the pincer movement of consumer confidence and high con- er debt is squeezing spending.

ore darkness may be around the er. Bellwether cyclicals such as pa- and steel, which waltzed through 1995, saw profits decline as much 7% in the final quarter. Meanwhile, nce orders for semiconductors have n sharply: Chipmakers' book-to-bill slid 17% between December and ary. After 1994's hot 3.5% growth, gross domestic product rose only nd 1.5% last year. "We've come ı from the stratosphere back closer ality," says David M. Blitzer, chief omist at Standard & Poor's Corp.

USINESS WEEK economists believe GDP in the first half of 1996 will at an annualized rate between 1% 1.5%. The January blizzard bears blame. But middling home sales a sharp drop in the growth of capi- pending since early '94 indicate that e's more going on than bad weather. ough most economists still don't the U. S. is heading for recession), it's surely coming in for a landing.

LE FAT. Adding to the earnings pres- , companies have much less room to profits by paring costs. Just look at osite return on equity: Since 1992, s zoomed from below 9% to around . That's a testament to increased uctivity—and to how hard it will find more savings. Indeed, while gins for the year widened to 6%— highest in two decades—they're ng back down. For the fourth quar- margins fell to 4.8%. Just as unex- edly strong demand boosted profit- ability in the early 1990s, slowing sales will trim margins this year. "It's the exact counter-story to where we were in 1990," says Richard Bernstein, head of quantitative research at Merrill Lynch.

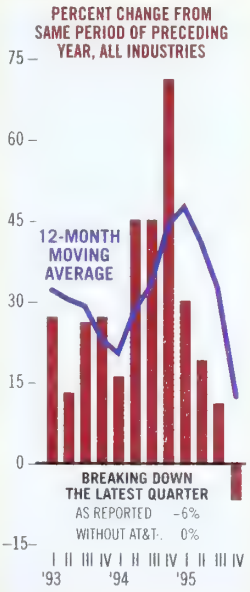
General Motors Corp. headed the list of BUSINESS WEEK's top 25 earners in 1995, with $6.9 billion in profits, a 23% gain, on sales up just 9%, to $169 billion. Although the cost-cutting and productivity-enhancing steps GM began in 1992 have clearly taken hold, the strong performance wasn't enough to save Detroit from a 10% slide in overall profits. For that, blame Ford Motor Co. and Chrysler Corp., the only two companies among America's top 25 earners to show profit declines in 1995. As Ford struggled with heavy costs for new-model introductions in a slowing market, profits fell 22%, to $4.1 billion, on sales up 7%, to $137 billion. Chrysler slid further: Profits dropped 45%, to $2 billion, on sales up 2%, to $53 billion. The bad news for GM? It's launching costly new models this year into an increasingly lackluster market.

CHIP PILES. As an industry, chemical companies raked in the biggest gains. Much of the credit goes to Dow Chemical Co., which saw profits rise 145%, to $1.9 billion, on a 21% sales hike, to $20.2 billion. DuPont Co., too, had a strong year: Profits rose 21%, to $3.3 billion, on sales up 7%, to $42 billion. Both benefited from the red-hot U. S. market early in the year, as well as strong demand from Asia and other developing regions. Yet as the slowing world economy dented fourth-quarter profits growth, 1996 promises to be tougher.

There's already evidence of leaner

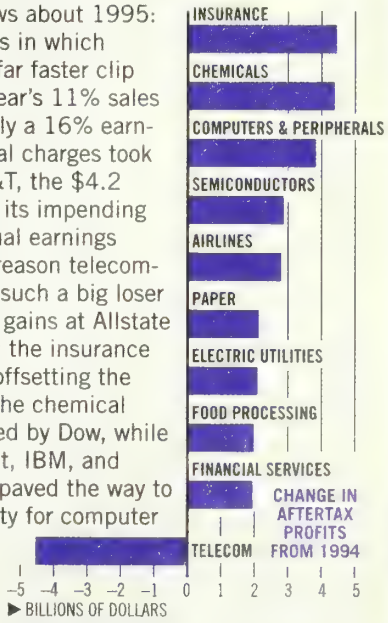
A Spotlight on 1995 Profits

AFTERTAX PROFITS QUARTER BY QUARTER



INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN 1995

The troubling news about 1995: After several years in which profits grew at a far faster clip than sales, last year's 11% sales rise generated only a 16% earnings gain. Unusual charges took a big bite. At AT&T, the $4.2 billion charge for its impending breakup cut annual earnings 97%—the main reason telecommunications was such a big loser in 1995. But big gains at Allstate and Loews fueled the insurance industry, almost offsetting the telecom losses. The chemical industry was paced by Dow, while Digital Equipment, IBM, and Hewlett-Packard paved the way to greater profitability for computer companies.



DATA: STANDARD & POOR'S COMPUSTAT

Ominous signs abound: Chip backlogs, high consumer debt, diving profits in bellwether industries

times ahead among many of last year's top performers. Semiconductors and computers, for example, gained a combined $6.7 billion in new profits during 1995. IBM led the sector with $4.2 billion in profits, a 38% leap. The reason: strong growth in computer services and mainframe sales, plus black ink again at its PC unit. Hewlett-Packard Co.'s profits leapt 52%, to $2.4 billion, as a result of strong PC and workstation sales. But computer makers' profits fell 11% in the fourth quarter. Struggling Apple Computer Inc. and Unysis Corp., which took a $582 million charge to cut jobs and ditch mainframes, were the biggest cul-

prits. And while strong sales of Pentium chips pushed Intel Corp.'s profits up 56%, to $3.6 billion, for the year, its $60 million fourth-quarter write-down reflected the lower value of memory-chip inventory as sales to PC makers slowed at yearend.

Hefty write-offs made losers of some industries even in a generally buoyant year. Aerospace and defense companies did poorly overall. McDonnell Doug Corp.'s write-off for accounting chang left it $416 million in the red, wh Boeing Co.'s $600 million charge for e ly retirements cut earnings to $393 n lion even as orders boomed. But t biggest dog was the deregulating te communications industry: After its $ billion write off, AT&T's profits slid 97 to $139 million. Sluggish sales and ov capacity also continued to drag do retailers. It was one more sign tha even putting aside one-time charges 1996 is hardly shaping up to be a pa

By David Leonhardt in New Yo with bureau reports

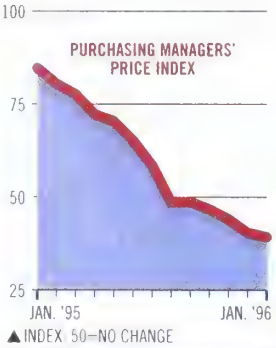
WHAT'S FEEDING THE GLOOM-AND-DOOM BEARS

So you think the fourth-quarter slowdown in profits was bad? Get ready for 1996. "We're clearly on the verge of recession," says Edward E. Yardeni, chief economist at Deutsche Morgan Grenfell. He thinks that 1996 profits will fall 10% below 1995 earnings as a worldwide deflationary cycle takes hold.

Welcome to the dark and dreary world of the recession bears. With the storm-battered economy showing signs of weakness, a small but growing band of experts believes that the U. S. is already in a downturn—or will be by midyear. Although way out of step with the consensus opinion—that gross domestic product will rise at an annual rate of 2.3% in 1996—the bears' stance is gaining favor among those who think that the booming stock market is overdue for a correction. Those investors who remain bullish "must be looking well beyond this year's economy," says David H. Resler, chief economist at Nomura Securities International Inc.

What signs do the bears see that others are ignoring? For starters, the money supply is shrinking at a 2.2% rate, reflecting weakening demand. And the National Association of Purchasing Management's survey of members has shown steady declines in their economic outlook for months, "clearly flashing a recession warning," Resler says.

PRICES ARE FALLING—IS RECESSION FAR BEHIND?



▲INDEX: 50=NO CHANGE

DATA: NATIONAL ASSN. OF PURCHASING MANAGEMENT

Certainly, manufacturing is taking a beating. In today's environment, producers can't raise prices (chart), so they must squeeze costs and trim payrolls. Factories lost 250,000 jobs last year. Consumers, too, are retrenching, as the slower-than-expected December retail sales growth of 0.3% shows. And even though government spending usually rises in election years, the budget stalemate will keep Washington riding the brake.

Missing from the bears' tale of woe so far is the shock—from a new round of rate hikes, inventory corrections, inflation, politics, or some unforeseen event—that typically serves as the catalyst for a recession. But pessimists have plenty of candidates. The winter storms could tip the economy, Resler says. Maureen Allyn, chief economist at Scudder, Stevens & Clark Inc., thinks consumers could pull the trigger by slashing total debt, which is at record levels relative to income. She expects 1996 earnings-per-share for companies in the Standard & Poor's 500-stock index to fall 8% below 1995's profits.

MISSED THE BOAT. Others argue that the rate hikes engineered by the Federal Reserve Board starting in 1994 are taking their toll. They think it's too late to prevent a downturn even if the Fed continues more recent moves to bring rates back down. Yardeni believes the Fed did not do enough last year to reverse the downward move it started. "The best they can do," he says, "is set up a better 1997."

But forecasters with rosier predictions dismiss such a prospect. "Except after the Korean War, the U. S. has never gone into recession without the Fed raising rates—and the Fed quit hiking 15 months ago," insists Roger Brinner, chief economist at DRI/McGraw-Hill. Along with most other economists, Brinner maintains that the U. S. is enjoying a full-employment economy and steady, if slow, growth. For now, at least, the gloom-and-doom bears provide just a faint, though persistent, growl on the horizon.

By Mike McNamee in Washington

Fourth Quarter & Full Year 1995

CORPORATE SCOREBOARD

ossary

ES: Includes all sales and er operating revenues. For ks, includes all operating enues.

FITS: Net income before aordinary items. For banks, profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Feb. 9, 1996, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

OMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 %	4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
LL-INDUSTRY COMPOSITE	**1280562.0**	**9**	**4875365.0**	**11**	**62027.0**	**–6**	**287611.2**	**16**	**4.8**	**5.6**	**16.3**	**19**	**2.49**
AEROSPACE & DEFENSE													
DUSTRY COMPOSITE	23654.0	–2	92091.3	0	–68.7	NM	2008.5	–41	NM	2.8	7.3	39	2.07
EING	4539.0	–11	19515.0	-11	218.0	39	393.0	–54	4.8	3.1	4.0	72	1.15
NCORP (1)	450.1	–9	1771.5	2	7.0	NM	38.3	NM	1.6	NM	107.9	11	1.17
NERAL DYNAMICS	893.0	23	3067.0	0	64.0	10	247.0	11	7.2	8.0	16.7	16	3.92
CKHEED MARTIN	6052.0	–8	22853.0	0	311.0	15	682.0	–35	5.1	4.1	11.8	24	3.28
DONNELL DOUGLAS	3731.0	6	14332.0	9	–936.0	NM	–416.0	NM	NM	4.7	–10.4	NM	–3.66
RTHROP GRUMMAN	1812.0	–4	6818.0	2	58.0	NM	252.0	620	3.2	NM	17.6	13	5.11
IOKOL (6)	209.9	–4	932.9	–7	22.3	97	62.2	9	10.6	5.2	15.0	11	3.33
ITED TECHNOLOGIES	5967.0**	5	22802.0	8	187.0	13	750.0	28	3.1	2.9	18.3	18	5.70
AUTOMOTIVE													
DUSTRY COMPOSITE	112345.3	4	432170.6	8	4149.9	–17	15673.7	–9	3.7	4.7	18.7	9	4.37
CARS & TRUCKS													
OUP COMPOSITE	96506.2	4	370287.5	7	3687.1	–16	13513.3	–10	3.8	4.7	21.5	8	5.05
RYSLER	15100.0**	6	53200.0	2	1040.0	–11	2025.0	–45	6.9	8.2	19.0	11	5.30
RD MOTOR	34547.0	3	137137.0	7	660.0	–58	4139.0	–22	1.9	4.7	15.4	8	3.58
NERAL MOTORS	43934.5**	3	168828.5	9	1866.0	19	6932.5	23	4.2	3.7	29.5	7	7.28
VISTAR INTERNATIONAL (2)	1759.0	14	6292.0	19	56.0	30	164.0	61	3.2	2.8	21.6	6	1.83
CCAR	1165.8	–1	4830.0	7	65.1	14	252.8	24	5.6	4.9	19.1	8	6.50
PARTS & EQUIPMENT													
OUP COMPOSITE	12187.2	12	47220.4	16	282.5	–35	1436.6	–7	2.3	4.0	8.6	14	2.30
VIN INDUSTRIES	500.5	4	1966.4	6	7.4	NM	17.9	–27	1.5	NM	4.5	26	0.80
RG-WARNER AUTOMOTIVE	346.8	2	1329.1	9	22.4	13	74.2	15	6.5	5.9	12.7	10	3.15
MMINS ENGINE	1331.0	4	5245.0	11	42.0	–40	224.0	–11	3.2	5.5	19.3	7	5.52
NA	2034.1	17	7786.7	15	78.9	32	288.1	26	3.9	3.4	24.7	11	2.84
TROIT DIESEL	510.4	20	2087.1	26	4.5	–55	40.1	11	0.9	2.4	12.9	12	1.62
TON	1661.0	3	6822.0	13	90.0	1	399.0	20	5.4	5.5	20.2	11	5.13
HLIN (4)	704.4	17	2821.7	21	33.2	4	155.8	21	4.7	5.3	16.5	15	2.60
DERAL-MOGUL	485.1	–6	1995.9	5	–49.1	NM	–9.7	NM	NM	2.3	–4.1	NM	–0.53
INDUSTRIES	2251.0	4	8884.0	15	–16.0	NM	21.0	–90	NM	3.9	0.1	NM	0.03
AR SEATING	1447.7	54	4714.4	50	37.2	44	94.2	58	2.6	2.7	17.4	16	1.79
DINE MFG. (9)	252.8	5	988.6	14	14.9	–15	67.0	12	5.9	7.2	19.7	12	2.19
ITH (A. O.)	397.6	13	1544.8	12	15.6	15	61.4	7	3.9	3.9	17.5	9	2.94
ANDARD PRODUCTS (6)	264.7	9	1034.7	10	1.5	71	3.6	–88	0.6	2.2	1.5	86	0.22
TIRE & RUBBER													
OUP COMPOSITE	3651.9	2	14662.8	7	180.3	3	723.8	4	4.9	4.9	18.4	13	3.07
OPER TIRE & RUBBER	381.9	6	1493.6	6	33.9	–13	112.8	–12	8.9	10.8	15.1	18	1.35
ODYEAR TIRE & RUBBER	3270.0	2	13169.2	7	146.4	7	611.0	8	4.5	4.3	19.2	12	4.02

Fourth quarter ended Nov. 30. (2) Fourth quarter ended Oct. 31. (3) First quarter and most recent 12 months ended Dec. 31. (4) First quarter and most recent 12 months ended Nov. 30. (5) First quar- and most recent 12 months ended Oct. 31. (6) Second quarter and most recent 12 months ended Dec. 31. (7) Second quarter and most recent 12 months ended Nov. 30. (8) Second quarter and most nt 12 months ended Oct. 31. (9) Third quarter and most recent 12 months ended Dec. 31. (10) Third quarter and most recent 12 months ended Nov. 30. (11) Third quarter and most recent 12 months ed Oct. 31. (12) Fourth quarter ended Jan. 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from major subsidiaries not includ- in consolidated sales. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items. = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES.

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS EARNING PER SHARE
3 BANKS													
INDUSTRY COMPOSITE	63503.8	13	245993.0	15	7569.2	12	31463.4	8	11.9	12.1	15.8	13	4.22
(A) BANKS - EAST													
GROUP COMPOSITE	29316.5	11	113537.8	10	2874.5	1	12586.7	1	9.8	10.8	14.7	13	4.32
BANK OF BOSTON	1119.0	–9	4874.0	13	142.0	18	541.0	22	12.7	9.8	15.5	10	4.55
BANK OF NEW YORK	1267.0	13	4995.0	22	241.0	20	914.0	22	19.0	17.9	18.1	12	4.57
BANKERS TRUST NEW YORK	2108.0	20	7556.0	16	126.0	25	215.0	–65	6.0	5.8	4.0	33	2.03
CHASE MANHATTAN	2735.0	12	10407.0	4	340.0	48	1165.0	–3	12.4	9.4	13.8	12	5.76
CHEMICAL BANKING	3810.0**	16	14884.0	17	490.0	174	1805.0	39	12.9	5.5	16.0	10	6.73
CITICORP	7230.0	7	28128.0	–3	905.0	–13	3464.0	1	12.5	15.4	18.9	10	7.21
FIRST MARYLAND BANCORP	210.8	14	801.6	13	31.5	11	120.2	8	14.9	15.4	9.8	NA	NA
FLEET FINANCIAL GROUP	1779.7	13	7099.3	17	–138.0	NM	610.0	–28	NM	16.4	10.4	26	1.57
INTEGRA FINANCIAL	295.5	6	1182.8	11	8.4	–79	128.4	–24	2.8	14.1	11.2	17	3.88
MBNA	718.2**	31	2565.0	38	110.2	34	353.1	32	15.3	15.0	33.4	28	1.54
MELLON BANK	835.0	11	3241.0	22	174.0	324	691.0	60	20.8	5.5	18.2	12	4.50
MERIDIAN BANCORP	344.0**	7	1367.0	13	48.3	9	169.8	7	14.0	13.7	13.4	17	3.00
MORGAN (J. P.)	3639.0**	18	13838.0	16	366.0	90	1296.0	7	10.1	6.3	12.8	13	6.42
PNC BANK	1581.8	6	6250.9	9	–176.2	NM	408.1	–54	NM	7.1	9.0	26	1.19
REPUBLIC NEW YORK	735.3**	4	2859.6	12	94.9	6	288.6	–15	12.9	12.6	10.4	13	4.66
STATE STREET BOSTON	597.9	18	2273.6	26	65.5	15	247.1	12	11.0	11.3	16.1	16	2.98
UJB FINANCIAL	310.3	7	1215.1	13	46.0	34	170.4	29	14.8	11.9	13.3	12	2.99
(B) BANKS - MIDWEST													
GROUP COMPOSITE	13523.9	14	52274.4	18	1792.3	34	7394.9	11	13.3	11.3	18.0	12	3.12
BANC ONE	2044.5	11	7885.0	10	336.8	423	1277.9	27	16.5	3.5	16.3	12	2.91
BOATMEN'S BANCSHARES	715.9	9	2816.2	14	113.7	9	418.8	3	15.9	15.8	14.9	13	3.25
COMERICA	734.9	14	2869.2	23	106.5	10	413.4	7	14.5	15.0	15.9	12	3.54
FIFTH THIRD BANCORP	395.9**	26	1479.9	26	77.9	20	287.7	18	19.7	20.6	17.5	16	2.91
FIRST BANK SYSTEM	720.4	4	2844.2	10	150.7	NM	568.1	81	20.9	NM	21.4	14	4.19
FIRST CHICAGO NBD	2598.0	15	10139.0	26	126.0	–60	1150.0	–6	4.9	13.9	30.6	11	3.45
FIRST OF AMERICA BANK	538.2**	8	2142.6	14	66.0	26	236.7	7	12.3	10.5	13.4	12	3.73
FIRSTAR	453.3**	12	1745.7	17	71.8	27	228.9	1	15.8	14.0	15.2	15	3.00
HUNTINGTON BANCSHARES	449.8**	22	1710.3	19	65.5	25	244.5	1	14.6	14.2	16.5	13	1.78
KEYCORP	1480.8**	7	5879.7	12	206.7	7	789.2	–8	14.0	14.0	15.7	11	3.30
MERCANTILE BANCORPORATION	362.4**	15	1398.3	16	58.1	107	216.8	29	16.0	8.9	15.3	11	4.00
NATIONAL CITY	724.4	16	2828.6	22	121.5	9	465.1	8	16.8	17.8	16.5	11	3.03
NORWEST	2025.1	25	7439.3	24	259.7	27	956.0	19	12.8	12.7	19.8	13	2.76
OLD KENT FINANCIAL	280.2**	14	1096.4	20	31.4	3	141.8	3	11.2	12.4	14.2	13	3.11
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	11627.9	16	44787.2	21	1555.5	10	6122.6	9	13.4	14.1	15.5	12	4.73
BANPONCE	337.2**	24	1248.1	24	40.3	24	146.4	17	12.0	12.0	14.0	10	4.19
BARNETT BANKS	933.5	15	3622.4	18	138.3	10	533.3	9	14.8	15.4	16.3	11	5.30
CRESTAR FINANCIAL	355.7	12	1386.1	13	26.3	–43	179.8	–2	7.4	14.6	12.4	14	4.12
FIRST TENNESSEE NATIONAL	358.1**	26	1319.1	14	45.7	39	164.9	12	12.8	11.5	20.0	13	4.85
FIRST UNION	2437.5	16	9301.9	19	335.4	–3	1430.2	4	13.8	16.5	15.8	12	5.04
NATIONSBANK	4077.0**	16	15938.0	23	510.0	26	1950.0	15	12.5	11.5	16.3	10	7.1[illegible]
REGIONS FINANCIAL	281.8	20	1101.3	29	44.7	20	172.8	18	15.9	15.8	15.4	11	3.75
SOUTHERN NATIONAL	456.0**	10	1774.5	11	70.1	12	178.1	–25	15.4	15.1	10.8	18	1.66
SOUTHTRUST	460.1**	25	1707.6	30	53.6	18	199.0	15	11.6	12.4	14.3	11	2.30
SUNTRUST BANKS	953.3	12	3688.3	15	144.9	10	565.5	8	15.2	15.5	13.9	15	4.94
WACHOVIA	977.7**	21	3699.8	25	146.2	3	602.5	12	15.0	17.6	16.7	13	3.50
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	9035.5	11	35393.6	19	1346.9	13	5359.2	24	14.9	14.7	16.3	12	6.2[illegible]
BANCORP HAWAII	263.0	8	1019.4	9	32.1	86	121.8	3	12.2	7.0	11.7	12	2.96
BANKAMERICA	4865.0	14	19027.0	24	704.0	19	2664.0	22	14.5	13.8	13.8	11	6.4[illegible]
FIRST INTERSTATE BANCORP	1180.1	7	4592.7	12	215.4	2	885.1	21	18.3	19.2	22.4	15	11.0[illegible]
FIRST SECURITY	313.2**	17	1201.4	24	8.8	–75	120.0	–14	2.8	13.1	11.8	15	1.5[illegible]
U. S. BANCORP	685.0	6	2721.3	13	21.4	–77	329.0	29	3.1	14.5	12.8	16	2.0[illegible]
UNION BANK	415.2**	24	1594.8	27	59.2	129	207.3	228	14.3	7.8	14.6	11	5.3[illegible]
WELLS FARGO	1314.0	4	5237.0	8	306.0	42	1032.0	23	23.3	17.2	27.8	13	20.3[illegible]
4 CHEMICALS													
INDUSTRY COMPOSITE	35235.9	3	147003.0	13	2403.9	10	12400.2	55	6.8	6.4	27.1	14	3.8[illegible]
AIR PRODUCTS & CHEMICALS (3)	947.0	3	3891.2	9	89.0	3	370.3	51	9.4	9.4	15.4	16	3.3[illegible]
ALBEMARLE	296.0	3	1244.2	15	28.9	408	78.2	53	9.8	2.0	13.1	16	1.1[illegible]
ARCADIAN	306.3	6	1266.9	15	33.2	NM	88.3	783	10.8	NM	37.1	7	3.0[illegible]
ARCO CHEMICAL	993.0	5	4282.0	25	115.0	53	508.0	89	11.6	7.9	26.3	10	5.2[illegible]
CABOT (3)	443.0	4	1845.4	8	43.4	28	181.4	88	9.8	7.9	26.3	13	4.6[illegible]
CYTEC INDUSTRIES	296.1	3	1260.1	14	215.1	NM	282.2	403	72.6	6.6	79.2	14	5.4[illegible]
DEXTER	270.7	8	1088.9	12	8.8	–5	40.6	7	3.2	3.7	11.0	15	1.6[illegible]
DOW CHEMICAL	4594.0**	0	20200.0	21	417.0	128	1891.0	145	9.1	4.0	24.3	11	7.0[illegible]
DUPONT	10385.0***	2	42163.0	7	627.0	–3	3293.0	21	6.0	6.4	42.0	14	5.6[illegible]
EASTMAN CHEMICAL	1221.0	4	5040.0	16	121.0	16	559.0	66	9.9	8.9	36.6	10	6.7[illegible]
ENGELHARD	699.9**	14	2840.1	19	36.2	8	137.5	17	5.2	5.5	19.2	23	0.9[illegible]
ETHYL	260.0	–2	960.5	–6	22.5	–9	74.0	–19	8.7	9.3	18.3	18	0.6[illegible]

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
RRO	335.2	7	1323.0	11	11.7	–6	49.3	4	3.5	4.0	13.7	16	1.64
LLER (H. B.) (1)	313.1	6	1243.8	13	6.3	–26	31.2	1	2.0	2.9	10.5	16	2.22
ON	263.8	–25	1267.8	5	4.4	–76	32.2	–44	1.7	5.2	14.3	22	1.24
ORGIA GULF	220.8	–28	1081.6	13	31.1	–46	186.5	53	14.1	18.9	368.4	7	4.73
ACE (W. R.)	962.0**	1	3707.4	14	–284.3	NM	–196.6	NM	NM	6.8	–11.7	NM	–2.05
EAT LAKES CHEMICAL	565.0	0	2361.1	14	74.6	4	295.6	6	13.2	12.7	21.8	17	4.52
NNA (M. A.)	461.8	0	1902.0	11	12.0	18	56.7	53	2.6	2.2	11.5	16	1.83
RCULES	549.6	–27	2427.2	–14	83.9	–8	332.8	21	15.3	12.1	30.2	19	2.93
C GLOBAL (6)	549.6	22	2085.9	21	43.6	56	151.2	109	7.9	6.2	19.0	15	2.54
TERNATIONAL FLAVORS & FRAGRANCES	311.5	2	1439.5	9	39.8	–8	248.8	10	12.8	14.2	22.2	23	2.24
ONDELL PETROCHEMICAL	1143.0	4	4936.0	28	27.0	–74	389.0	74	2.4	9.4	102.4	6	4.86
NSANTO	2114.0	1	8962.0	8	80.0	48	739.0	19	3.8	2.6	20.4	20	6.36
RTON INTERNATIONAL (6)	916.1	10	3475.2	12	99.5	37	326.3	23	10.9	8.8	19.0	17	2.17
LCO CHEMICAL	309.7	6	1214.5	–3	34.9	102	135.7	85	11.3	5.9	21.8	17	1.83
INDUSTRIES	234.3	5	1024.0	15	34.1	NM	85.6	NM	14.6	1.1	NM	9	1.66
N	783.6	16	3149.8	19	26.8	4	139.9	54	3.4	3.8	15.5	15	5.50
AXAIR	807.0	12	3146.0	16	66.0	20	262.0	29	8.2	7.6	25.0	20	1.82
HM & HAAS	915.0**	6	3884.0	10	67.0	43	292.0	11	7.3	5.5	17.6	17	4.22
HULMAN (A.) (4)	249.5	–1	1025.8	23	8.5	–36	48.9	2	3.4	5.3	11.9	18	1.31
RRA INDUSTRIES	352.9**	18	2292.2	38	16.6	19	163.9	191	4.7	4.6	28.7	7	2.01
ION CARBIDE	1399.0	7	5888.0	21	190.0	21	925.0	138	13.6	12.0	47.1	7	6.44
IROYAL CHEMICAL (3)	231.5	9	1099.2	12	–8.4	NM	101.6	NM	NM	NM	NM	1	7.12
TCO	536.0	19	1985.1	8	–18.4	NM	100.3	6	NM	5.5	9.6	18	1.78
CONGLOMERATES													
DUSTRY COMPOSITE	**43913.7**	**10**	**164587.0**	**12**	**2970.8**	**6**	**10949.3**	**14**	**6.8**	**7.0**	**21.5**	**19**	**3.35**
CO STANDARD (3)	2600.0**	18	10310.2	25	61.4	35	235.2	179	2.4	2.1	15.7	24	1.90
IEDSIGNAL	3798.0	7	14346.0	12	233.0	14	875.0	15	6.1	5.8	25.5	18	3.09
XTER INTERNATIONAL	578.8	18	2194.8	27	10.0	–38	39.1	–15	1.7	3.3	7.5	28	0.71
L	923.4	1	3575.1	1	21.9	–36	1.1	NM	2.4	3.7	0.0	NM	0.00
MEYER HEALTH (9)	1430.4	18	5392.7	10	–40.2	NM	–9.6	NM	NM	1.3	–10.9	NM	–1.76
NERAL ELECTRIC	19752.0**	11	70027.9	17	1865.0	11	6573.0	11	9.4	9.5	23.2	20	3.90
RCOURT GENERAL (2)	783.7**	6	3034.7	6	55.3	9	177.6	21	7.1	6.8	18.9	18	2.31
DEN	557.8	0	2192.4	4	–38.6	NM	7.4	–89	NM	2.9	1.2	NM	0.15
EMARK INTERNATIONAL	985.4	1	3573.6	5	95.5	6	255.9	13	9.7	9.2	26.8	13	4.01
CKWELL INTERNATIONAL (3)	3062.0	25	13420.1	22	193.0	25	770.3	20	6.3	6.3	19.7	18	3.56
EDYNE	642.6	0	2567.8	7	30.6	87	162.0	NM	4.8	2.5	40.5	9	2.88
NECO	2402.0	–15	8899.0	–27	183.0	–12	735.0	15	7.6	7.4	23.2	13	4.16
TRON	2659.0	12	9973.0	3	127.0	13	479.0	11	4.8	4.7	14.9	15	5.51
N	2463.1	1	10172.4	12	114.8	15	446.2	34	4.7	4.1	20.9	13	6.69
HIT	485.2	142	1960.8	135	25.0	205	68.5	248	5.2	4.1	26.7	12	0.60
ITMAN	790.3	13	2946.5	11	34.0	7	133.5	25	4.3	4.6	22.0	19	1.26
CONSUMER PRODUCTS													
DUSTRY COMPOSITE	**72510.3**	**3**	**275897.2**	**6**	**4104.8**	**–15**	**18820.1**	**1**	**5.7**	**6.8**	**23.2**	**23**	**2.73**
APPAREL													
OUP COMPOSITE	**5861.3**	**14**	**21268.1**	**12**	**156.4**	**–40**	**753.9**	**–5**	**2.7**	**5.1**	**12.7**	**24**	**1.75**
WN GROUP (11)	406.9	0	1439.4	–1	9.7	–35	0.7	NM	2.4	3.7	0.3	NM	0.04
LWOOD (8)	425.6	13	1454.1	17	14.0	26	8.9	–76	3.3	3.0	2.8	33	0.42
E (7)	1443.0	37	5594.4	36	118.2	39	491.7	52	8.2	8.1	22.4	20	3.36
E WEST GROUP (11)	391.2	110	NA	NA	20.8	–14	NA	NA	5.3	12.9	16.1	NA	NA
LLIPS-VAN HEUSEN (11)	448.0	18	1433.9	18	–4.4	NM	6.1	–82	NM	4.7	2.3	47	0.23
BOK INTERNATIONAL	751.3	6	3481.5	6	1.3	–98	164.8	–35	0.2	7.5	16.8	13	2.07
SSELL	301.8	–1	1152.6	5	16.5	–42	54.1	–31	5.5	9.3	8.6	21	1.38
	1270.7	–1	5062.3	2	–35.6	NM	157.3	–43	NM	5.8	8.3	22	2.41
STPOINT STEVENS	422.8	0	1649.9	3	15.9	NM	–129.8	NM	3.8	NM	NM	NM	–3.97
APPLIANCES & HOME FURNISHINGS													
OUP COMPOSITE	**9718.2**	**10**	**36941.6**	**14**	**94.5**	**–34**	**799.2**	**–30**	**1.0**	**1.6**	**10.1**	**23**	**1.08**
ASTRONG WORLD INDUSTRIES	497.7	–2	2084.9	4	–74.6	NM	13.6	–93	NM	7.7	–0.7	NM	–0.02
T BUY (10)	1929.3	43	6589.0	52	17.8	1	56.3	10	0.9	1.3	13.7	12	1.30
CUIT CITY STORES (10)	1783.4	27	6686.1	32	31.5	11	181.0	19	1.8	2.0	18.5	16	1.85
ID GUYS (3)	306.7	9	914.3	16	6.7	–22	12.3	–19	2.2	3.1	9.0	10	0.92
LIG-MEYERS (10)	375.5**	19	1318.4	20	8.8	–53	53.5	–19	2.3	6.0	10.3	13	1.08
ERCO	279.0	1	1073.9	0	14.8	37	34.2	23	5.3	3.9	11.7	13	0.65
IBALL INTERNATIONAL (6)	234.5	2	909.9	6	12.3	5	42.1	12	5.2	5.1	11.3	15	2.01
Z-BOY CHAIR (8)	258.3	12	899.4	7	14.3	18	37.4	2	5.5	5.2	11.4	16	2.05
GETT & PLATT	494.9	1	2059.3	11	34.2	10	134.9	17	6.9	6.3	18.9	15	1.59
ITZ FURNITURE (9)	270.1	–8	1008.4	–3	–7.3	NM	–20.9	NM	NM	1.7	NM	NM	–0.71
TAG	689.5	–20	3039.5	–10	16.6	–8	–15.0	NM	2.4	2.1	–2.4	NM	–0.14
TV & APPLIANCES (10)	202.6	2	809.1	16	1.4	–68	10.3	–43	0.7	2.1	6.8	7	0.59
IBEAM	303.5	2	1202.5	0	0.1	NM	50.6	–53	0.0	9.9	8.4	27	0.61
IRLPOOL	2093.0	0	8347.0	3	18.0	NM	209.0	32	0.9	NM	11.1	20	2.80

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
(C) BEVERAGES													
GROUP COMPOSITE	**18568.5**	**3**	**69675.3**	**8**	**886.0**	**–33**	**5801.8**	**3**	**4.8**	**7.4**	**28.2**	**31**	**2.25**
ANHEUSER-BUSCH	2232.6	–4	10340.5	3	–8.9	NM	886.6	–13	NM	7.0	18.5	20	3.44
BROWN-FORMAN (8)	441.9	9	1499.2	8	53.2	8	156.8	7	12.0	12.1	26.7	17	2.26
CANANDAIGUA WINE (4)	285.6	17	948.6	32	10.4	1	41.1	150	3.6	4.2	11.7	18	2.05
COCA-COLA	4333.0	8	18018.0	11	648.0	14	2986.0	17	15.0	14.1	56.7	34	2.37
COCA-COLA ENTERPRISES	1643.0	11	6773.0	13	–3.0	NM	82.0	19	NM	0.7	5.8	41	0.62
COORS (ADOLPH)	381.4	7	1675.4	1	5.3	–47	43.2	–26	1.4	2.8	6.2	17	1.13
PEPSICO	9251.0	1	30420.7	7	181.0	–65	1606.1	–10	2.0	5.6	21.4	32	2.00
(D) PERSONAL CARE													
GROUP COMPOSITE	**15696.3**	**7**	**59296.2**	**10**	**1350.3**	**8**	**4389.2**	**4**	**8.6**	**8.5**	**25.7**	**26**	**2.97**
ALBERTO-CULVER (3)	347.6	12	1394.4	12	12.9	15	54.3	16	3.7	3.6	14.3	19	1.95
AVON PRODUCTS	1384.1	2	4492.1	5	116.1	5	286.1	8	8.4	8.1	167.7	21	4.19
CLOROX (6)	466.8	13	2078.6	9	37.9	11	210.2	10	8.1	8.2	22.0	22	4.00
COLGATE-PALMOLIVE	2152.8	8	8358.2	10	122.5	–11	172.0	–70	5.7	6.9	9.2	77	1.04
GILLETTE	1987.9	10	6794.7	12	232.1	16	823.5	18	11.7	11.1	34.7	31	1.85
HELENE CURTIS INDUSTRIES (10)	267.0	–5	1255.2	1	–7.2	NM	8.0	55	NM	1.2	3.5	71	0.84
PROCTER & GAMBLE (6)	9090.0	7	34923.0	11	836.0	11	2835.0	17	9.2	8.8	25.2	22	3.98
(E) TOBACCO													
GROUP COMPOSITE	**22666.1**	**–5**	**88716.1**	**–1**	**1617.6**	**–12**	**7076.2**	**5**	**7.1**	**7.7**	**24.0**	**16**	**4.26**
AMERICAN BRANDS	3084.6**	–18	11367.1	–14	154.1	–67	543.1	–39	5.0	12.6	13.9	16	2.90
DIMON (6)	755.2	20	2114.9	11	18.4	397	–7.9	NM	2.4	0.6	–3.1	NM	–0.20
PHILIP MORRIS	12747.0	–8	53139.0	–1	1272.0	16	5478.0	16	10.0	7.9	39.2	15	6.51
RJR NABISCO HOLDINGS	4324.0	7	16008.0	4	44.0	–73	627.0	–18	1.0	4.0	5.2	21	1.58
STANDARD COMMERCIAL (9)	377.6	25	1236.5	23	–9.0	NM	–37.5	NM	NM	0.1	–61.1	NM	–4.26
UNIVERSAL (6)	1032.8**	7	3525.2	13	27.4	77	43.7	87	2.7	1.6	10.9	21	1.24
UST	344.9*	7	1325.4	8	110.7	12	429.8	11	32.1	30.7	109.4	16	2.16
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	**9670.7**	**4**	**40989.8**	**18**	**428.8**	**41**	**2347.6**	**225**	**4.4**	**3.3**	**21.9**	**11**	**2.42**
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	**2476.8**	**–4**	**11408.7**	**8**	**27.3**	**88**	**225.4**	**–20**	**1.1**	**0.6**	**8.7**	**30**	**0.92**
BALL	470.2	–23	2591.7	0	0.5	–98	–18.6	NM	0.1	3.6	–3.7	NM	–0.72
CROWN CORK & SEAL	1114.2	2	5053.8	14	6.1	–85	74.9	–43	0.5	3.7	5.1	51	0.83
OWENS-ILLINOIS	892.4	1	3763.2	6	20.7	NM	169.1	116	2.3	NM	34.2	11	1.40
(B) PAPER													
GROUP COMPOSITE	**7193.9**	**7**	**29581.1**	**22**	**401.5**	**38**	**2122.2**	**381**	**5.6**	**4.3**	**26.1**	**9**	**2.91**
BEMIS	399.2	7	1523.4	10	27.2	22	85.2	17	6.8	6.0	16.6	20	1.63
FEDERAL PAPER BOARD	556.1	5	1913.2	22	–17.9	NM	142.3	98	NM	9.1	15.2	17	3.11
GAYLORD CONTAINER (3)	253.8	5	1064.0	26	19.1	62	141.5	NM	7.5	4.9	125.0	4	2.58
JEFFERSON SMURFIT	972.8	10	4093.0	27	64.3	141	247.3	NM	6.6	3.0	NM	5	2.23
LONGVIEW FIBRE (2)	270.4	18	985.5	25	18.0	78	76.0	128	6.7	4.5	17.0	11	1.47
RIVERWOOD INTERNATIONAL	320.6	–15	1342.3	5	0.9	NM	45.5	344	0.3	NM	8.1	29	0.69
ROCK-TENN (3)	219.4	14	930.2	26	11.8	18	43.2	9	5.4	5.2	14.0	12	1.40
SONOCO PRODUCTS	682.3	12	2706.2	18	42.2	16	164.5	27	6.2	6.0	21.3	16	1.72
STONE CONTAINER	1644.4	1	7351.2	28	87.7	194	444.5	NM	5.3	1.8	46.1	3	4.64
TEMPLE-INLAND	867.1	15	3460.5	18	65.0	33	281.0	114	7.5	6.5	14.4	9	5.01
UNION CAMP	1007.8	9	4211.7	24	83.2	43	451.1	285	8.3	6.3	21.2	8	6.45
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	**100592.0**	**10**	**392555.3**	**12**	**2676.3**	**6**	**10412.5**	**11**	**2.7**	**2.8**	**12.9**	**20**	**1.31**
AMES DEPARTMENT STORES (11)	505.9**	–1	2156.3	2	–4.9	NM	17.8	–37	NM	NM	24.7	2	0.80
AUTOZONE (4)	463.0	19	1881.4	19	34.8	26	145.9	20	7.5	7.1	20.2	28	0.98
BAKER (J.) (11)	245.3	–6	1052.5	4	–41.3	NM	–32.6	NM	NM	2.5	–17.8	NM	–2.35
BARNES & NOBLE (11)	432.3	20	1847.2	22	–3.5	NM	27.8	107	NM	NM	6.3	28	0.87
BEST PRODUCTS (11)	325.9	–2	1513.0	NA	–5.8	NM	8.8	NA	NM	NM	2.7	14	0.28
BORDERS GROUP (11)	362.1	12	1638.9	NA	–6.0	NM	–169.9	NA	NM	NM	–35.7	NM	–4.00
BRADLEES (11)	404.1	–10	1840.9	0	–38.6	NM	–85.5	NM	NM	NM	NM	NM	–7.48
CALDOR (11)	591.4	–5	2764.5	4	–32.6	NM	0.6	–99	NM	0.2	0.2	60	0.05
CARSON PIRIE SCOTT (11)	248.9**	–10	1111.9	–4	4.1	–11	81.0	116	1.6	1.7	29.8	4	4.34
CHARMING SHOPPES (11)	267.8	–13	1125.9	–12	–24.7	NM	–27.0	NM	NM	2.5	–5.1	NM	–0.26
CONSOLIDATED STORES (11)	357.5	15	1427.9	22	10.1	26	59.9	32	2.8	2.6	17.3	18	1.24
CORPORATE EXPRESS (10)	301.0	86	964.2	96	6.8	264	16.4	NM	2.2	1.2	3.8	82	0.36
DAYTON HUDSON (11)	5573.0**	10	22564.0	10	44.0	–34	362.0	–16	0.8	1.3	11.3	16	4.76
DILLARD DEPARTMENT STORES (11)	1451.6**	5	5924.1	5	51.0	0	257.0	5	3.5	3.7	10.5	14	2.27
DOLLAR GENERAL (11)	437.2	22	1673.6	24	20.0	16	82.1	31	4.6	4.8	21.0	22	1.17
EDISON BROTHERS STORES (11)	319.8	–10	1417.7	–4	–83.3	NM	–98.2	NM	NM	0.2	–43.0	NM	–4.45
FABRI-CENTERS OF AMERICA (11)	214.4	22	822.5	36	6.0	46	17.0	109	2.8	2.3	10.3	15	0.90
FAMILY DOLLAR STORES (4)	396.2	11	1586.8	9	14.5	–7	57.0	–9	3.7	4.4	14.0	12	1.01
FEDERATED DEPARTMENT STORES (11)	3748.4**	95	12923.0	72	–46.4	NM	–63.0	NM	NM	2.3	–1.6	NM	–0.20
FINGERHUT	750.9	8	2110.0	9	30.3	139	50.9	11	4.0	1.8	9.3	14	1.05
GAP (11)	1155.9	17	4082.9	14	116.9	25	318.2	2	10.1	9.5	21.4	23	2.20
HECHINGER (11)	549.2	–13	2283.5	–5	–6.4	NM	–35.3	NM	NM	0.5	–7.3	NM	–0.84
HILLS STORES (11)	448.0	–2	1873.9	3	25.4	97	9.4	–76	5.7	2.8	3.8	NM	–0.09

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Mutual Fund Portfolio	Lipper Investment Category	Lipper Ranking (1 Year)	# of Funds in Category (1 Year)	Lipper Ranking (3, 5 & 10 Years)	# of Funds in Category (3, 5 & 10 Years)
Equity Funds					
Dean Witter European Growth Fund	European Region Funds	#1	42	#1, #1, N/A	19, 16, N/A
Dean Witter Health Sciences Trust	Health/Biotechnology Funds	#1	18	#7, N/A, N/A	13, N/A, N/A
Dean Witter International SmallCap Fund	International Small Company Funds	#6	12	N/A	N/A
TCW/DW Small Cap Growth Fund	Small Company Growth Funds	#7	307	N/A	N/A
Municipal Bond Fund Portfolios					
Dean Witter Limited Term Municipal Trust	Intermediate Municipal Debt Funds	#2	121	N/A	N/A
Dean Witter Multi-State Municipal Series Trust/ Massachusetts*	Massachusetts Municipal Debt Funds	#5	48	#3, N/A, N/A	24, N/A, N/A
Dean Witter Multi-State Municipal Series Trust/Michigan*	Michigan Municipal Debt Funds	#4	40	#5, N/A, N/A	17, N/A, N/A
Dean Witter Multi-State Municipal Series Trust/Minnesota*	Minnesota Municipal Debt Funds	#2	40	#2, N/A, N/A	21, N/A, N/A
Dean Witter Multi-State Municipal Series Trust/New Jersey*	New Jersey Municipal Debt Funds	#4	46	#8, N/A, N/A	23, N/A, N/A
Dean Witter Multi-State Municipal Series Trust/New York*	New York Municipal Debt Funds	#7	88	#8, N/A, N/A	50, N/A, N/A
Dean Witter Multi-State Municipal Series Trust/Ohio*	Ohio Municipal Debt Funds	#8	49	#3, N/A, N/A	25, N/A, N/A
Fixed Income Funds					
Dean Witter Global Short-Term Income Fund	Short World Multi-Market Income Funds	#6	13	#5, #4, N/A	29, 15, N/A
Dean Witter Premier Income Trust	Adjustable Rate Mortgage Funds	#9	64	#24, N/A, N/A	44, N/A, N/A
Money Market Funds					
Dean Witter Retirement Series, Liquid Asset Series***	Institutional Money Market Funds	#1	136	N/A	N/A
Dean Witter Retirement Series U.S. Government Money Market Series***	Institutional US Government Money Market Funds	#1	5	N/A	N/A

N/A = not applicable

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*The investment manager assumed any expenses that exceeded 50 basis points with respect to each series of the fund until December 31, 1995. **The investment manager assumed any expenses that exceeded 50 basis points with respect to each series of the fund until January 1, 1994. ***The investment manager has sought to assume all expenses (except for brokerage fees) and waive the management fee until December 31, 1995. Note that the Dean Witter Retirement Series is an open-end, no-load management investment company that provided a selection of investment portfolios for institutional and individual investors participating in various employee-benefit plans offered by or through Dean Witter Trust Company or Dean Witter Reynolds Inc. Without these waivers the funds' total returns and Lipper rankings might have been affected. © 1996 Dean Witter Distributors Inc.

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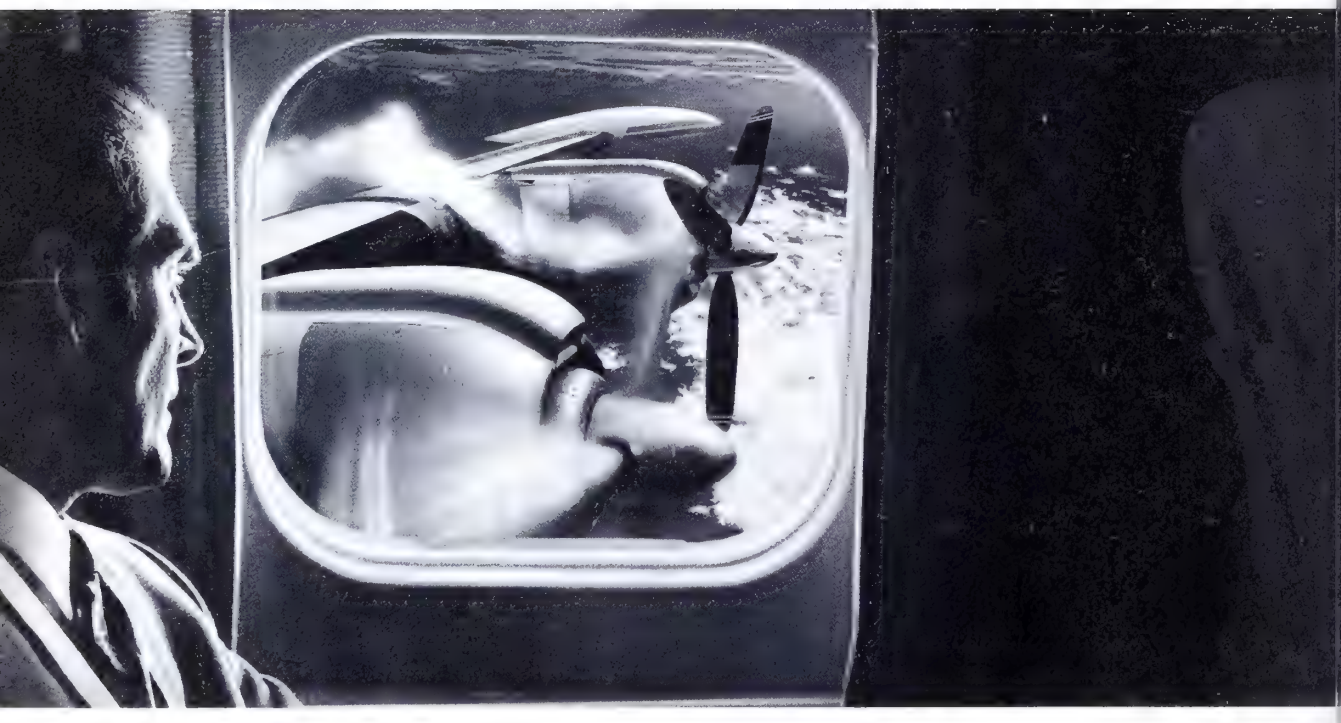

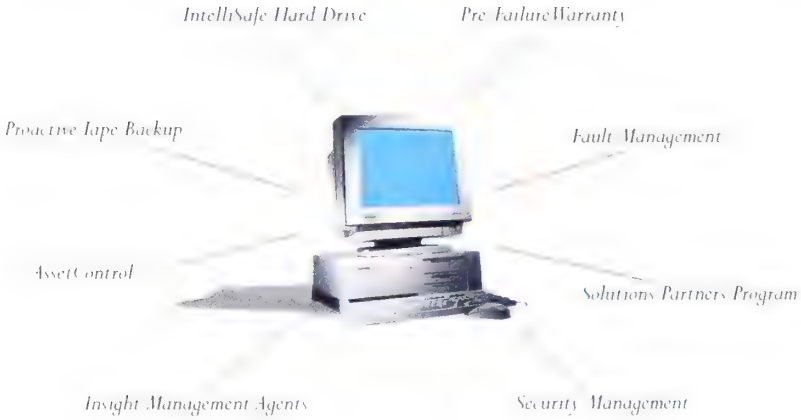

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 %	4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTH EARNIN PER SHAR
HOME DEPOT (11)	3997.8	23	14796.0	27	175.5	25	692.1	21	4.4	4.3	14.4	32	1.4
KMART (11)	8041.0**	3	34572.0	4	–118.0	NM	8.0	NM	NM	0.3	–0.2	NM	–0.0
KOHL'S (11)	486.8	25	1783.0	23	7.6	–45	64.4	3	1.6	3.6	17.6	34	1.7
LANDS' END (11)	235.9	–4	1011.1	5	1.8	–54	28.7	–26	0.7	1.6	16.3	18	0.8
LIMITED (11)	1803.3**	5	7648.7	6	657.3	626	1002.0	158	36.5	5.3	29.3	6	2.8
LOWE'S (11)	1766.0	12	6866.2	19	43.9	–19	234.1	15	2.5	3.4	14.4	21	1.4
MAY DEPARTMENT STORES (11)	3155.0**	7	12840.0	7	135.0	–3	791.0	6	4.3	4.7	17.9	15	3.1
MERCANTILE STORES (11)	694.8**	2	2868.6	3	29.2	11	105.2	4	4.2	3.9	7.5	17	2.8
MEYER (FRED) (11)	750.0	20	3294.5	6	–2.3	NM	20.0	–30	NM	NM	3.6	36	0.7
MICHAELS STORES (11)	312.7	10	1215.6	43	3.0	–62	–0.4	NM	1.0	2.8	–0.1	NM	–0.0
MICRO WAREHOUSE	404.0	61	1308.0	68	13.8	54	45.1	61	3.4	3.6	16.4	29	1.4
NEIMAN MARCUS GROUP (5)	489.9**	6	1915.8	10	25.0	16	70.8	–2	5.1	4.7	92.4	17	1.1
NORDSTROM (11)	906.8**	5	4062.6	7	29.4	–23	180.9	–7	3.2	4.4	13.0	19	2.2
OFFICE DEPOT	1424.5	13	5313.2	25	35.7	11	132.4	26	2.5	2.6	13.8	25	0.8
OFFICEMAX (11)	679.0	38	2287.7	34	87.7	735	113.3	314	12.9	2.1	11.8	16	1.4
PAYLESS CASHWAYS (1)	675.1	-4	2680.2	–2	–137.4	NM	–128.5	NM	NM	2.5	–33.3	NM	–3.3
PENNEY (J. C.) (11)	5497.0	0	22019.0	3	240.0	–12	940.0	–12	4.4	5.0	16.9	12	3.8
PEP BOYS–MANNY, MOE & JACK (11)	411.8	13	1519.5	11	21.4	4	81.2	5	5.2	5.7	12.6	21	1.3
PETSMART (11)	251.7	23	926.3	35	0.7	NM	–15.7	NM	0.3	NM	–6.6	NM	–0.3
PRICE/COSTCO (4)	4383.6**	9	18600.9	11	49.6	2	218.3	11	1.1	1.2	13.8	15	1.0
ROSS STORES (11)	330.7	12	1370.4	13	7.9	–29	34.6	–7	2.4	3.8	12.8	16	1.4
SEARS, ROEBUCK	10854.0	6	34925.0	6	455.0	28	1025.0	20	4.2	3.5	25.1	18	2.5
SERVICE MERCHANDISE	1686.5	–2	4018.5	–1	81.0	–6	50.3	–18	4.8	5.0	13.0	10	0.5
SHOPKO STORES (10)	491.0	4	1955.4	7	10.1	–10	36.1	24	2.1	2.4	9.1	10	1.1
SPORTS AUTHORITY (11)	234.4**	20	992.4	29	0.6	NM	20.0	38	0.3	NM	7.6	22	0.9
STAPLES (11)	818.8	48	2757.2	61	21.9	83	60.2	154	2.7	2.2	10.7	44	0.5
STRAWBRIDGE & CLOTHIER (11)	225.5**	0	988.4	–1	–7.2	NM	–2.1	NM	NM	0.2	–0.9	NM	–0.2
TALBOTS (11)	224.8	4	946.6	14	19.4	–3	58.2	14	8.6	9.3	14.7	18	1.6
TJX (11)	1012.7	10	3804.6	9	33.9	–2	62.8	–40	3.3	3.7	11.6	25	0.7
TOYS 'R' US (11)	1714.5	5	9021.9	7	20.9	–56	463.9	–7	1.2	2.9	13.8	14	1.6
VALUE CITY DEPARTMENT STORES (5)	222.4	8	905.8	5	2.5	–51	11.2	–67	1.1	2.5	4.8	18	0.3
VENTURE STORES (11)	444.6**	–4	2041.6	4	–12.6	NM	–8.8	NM	NM	0.3	–4.2	NM	–0.6
VIKING OFFICE PRODUCTS (6)	250.4	32	920.8	37	12.8	39	52.7	37	5.1	4.9	23.6	41	1.2
WABAN (11)	966.0	7	3874.4	9	14.5	9	68.5	NM	1.5	1.5	12.9	10	2.0
WAL-MART STORES (11)	22914.0	12	90524.7	15	611.0	4	2827.6	12	2.7	2.9	20.1	18	1.2
WOOLWORTH (11)	2071.0**	–1	8347.0	–2	34.0	–8	33.0	NM	1.6	1.8	2.4	49	0.2
ZALE (5)	214.3	4	1045.0	11	1.2	NM	35.8	37	0.6	NM	9.4	14	0.9
9 ELECTRICAL & ELECTRONICS													
INDUSTRY COMPOSITE	**47674.0**	**21**	**174065.8**	**20**	**3899.6**	**35**	**14892.3**	**33**	**8.2**	**7.3**	**19.6**	**17**	**2.6**
(A) ELECTRICAL PRODUCTS													
GROUP COMPOSITE	**8673.9**	**11**	**32233.3**	**11**	**389.7**	**9**	**1713.0**	**12**	**4.5**	**4.6**	**14.3**	**26**	**1.6**
AMETEK	201.9	6	837.5	8	10.8	19	43.8	20	5.4	4.8	54.1	13	1.
COOPER INDUSTRIES	1288.2**	4	4885.9	7	73.2	–14	280.6	–4	5.7	6.9	16.9	16	2.
EMERSON ELECTRIC (3)	2565.8	12	10294.1	16	230.5	3	934.8	12	9.0	9.8	18.7	20	4.
GENERAL SIGNAL	501.6	20	1863.2	22	20.3	–30	100.1	–4	4.0	7.0	18.9	17	2.
HUBBELL	282.7	2	1143.1	13	31.7	12	121.9	14	11.2	10.3	18.7	19	3.
MAGNETEK (6)	282.2	–3	1192.0	3	–1.5	NM	9.3	–11	NM	1.5	8.1	20	0.
NATIONAL SERVICE INDUSTRIES (4)	492.6	2	1982.2	4	23.3	10	96.3	14	4.7	4.4	12.7	17	1.
RAYCHEM (6)	411.1	7	1601.5	7	25.1	26	64.4	NM	6.1	5.2	8.1	48	1.
THOMAS & BETTS	310.9	8	1236.8	15	23.3	19	80.9	NM	7.5	6.8	13.5	19	4.
UCAR INTERNATIONAL	244.0	21	901.0	19	31.0	–11	25.0	–75	12.7	17.4	NM	65	0.
WESTINGHOUSE ELECTRIC	2093.0	19	6296.0	7	–78.0	NM	–44.0	NM	NM	NM	–4.5	NM	–0
(B) ELECTRONICS													
GROUP COMPOSITE	**19220.5**	**14**	**71419.9**	**14**	**1203.7**	**–2**	**4590.0**	**14**	**6.3**	**7.2**	**15.8**	**19**	**2.**
GENERAL INSTRUMENT	648.4	20	2432.0	19	53.6	–38	123.8	–50	8.3	16.1	13.5	28	1.
HARRIS (6)	916.6	6	3507.0	2	40.4	16	164.8	26	4.4	4.0	12.6	15	4.
HUGHES ELECTRONICS	3970.7	8	14714.3	5	294.4	15	1107.8	3	7.4	7.0	13.2	20	2.
LITTON INDUSTRIES (5)	836.2	6	3367.1	–1	36.7	14	139.6	143	4.4	4.1	17.5	17	2.
LORAL (9)	1610.4	21	6178.9	13	91.7	29	339.2	23	5.7	5.3	18.2	24	1.
MOTOROLA	7298.0	13	27037.0	22	432.0	–16	1781.0	14	5.9	8.0	16.1	19	2.
RAYTHEON	3360.0	23	11715.9	17	222.3	8	792.5	33	6.6	7.5	18.9	16	3.
TRACOR	229.0	22	886.9	28	7.1	21	27.9	50	3.1	3.1	20.3	13	1.
VARIAN ASSOCIATES (3)	351.2	1	1580.8	18	25.5	43	113.5	54	7.3	5.2	28.0	15	3.
(C) INSTRUMENTS													
GROUP COMPOSITE	**3270.3**	**16**	**11615.0**	**14**	**233.6**	**31**	**712.9**	**30**	**7.1**	**6.3**	**17.3**	**18**	**2.**
BECKMAN INSTRUMENTS	264.6	6	930.1	5	10.9	–17	48.9	3	4.1	5.3	14.1	22	1.
HONEYWELL	1916.7	10	6731.3	11	125.8	20	333.6	20	6.6	6.0	16.5	20	2.
PERKIN-ELMER (6)	294.0	13	1113.6	8	22.8	33	75.2	7	7.8	6.5	22.1	27	1.
TEKTRONIX (7)	443.6	24	1649.0	18	26.3	41	95.9	27	5.9	5.2	14.8	15	2.
TERADYNE	351.4	61	1191.0	53	47.8	99	159.3	109	13.6	11.1	21.0	12	1.

ORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
D) SEMICONDUCTORS & OTHER COMPONENTS													
ROUP COMPOSITE	**16509.3**	**38**	**58797.5**	**35**	**2072.6**	**84**	**7876.2**	**55**	**12.6**	**9.4**	**25.4**	**13**	**3.18**
DVANCED MICRO DEVICES	593.0	9	2429.7	14	55.6	36	300.5	–2	9.4	7.5	14.3	7	2.85
MP	1298.0	9	5227.2	20	114.0	12	427.6	14	8.8	8.5	15.4	22	1.96
NALOG DEVICES (2)	257.2	27	941.5	22	35.1	62	119.3	60	13.7	10.7	19.2	29	1.00
VX (9)	302.7	25	1178.5	NA	34.2	85	121.1	NA	11.3	7.7	21.5	18	1.39
RRUS LOGIC (9)	295.8	29	1187.1	50	9.0	–38	83.7	46	3.0	6.3	15.9	19	1.23
ITEL	4580.0	42	16202.0	41	867.0	133	3566.0	56	18.9	11.5	32.1	14	4.03
BIL CIRCUIT (4)	233.9	118	686.1	70	5.2	186	10.7	202	2.2	1.7	10.2	13	0.66
SI LOGIC	349.6	37	1267.7	41	71.6	96	238.1	119	20.5	14.3	19.6	18	1.86
EMC ELECTRONIC MATERIALS	262.4	44	886.9	34	30.9	220	87.3	147	11.8	5.3	14.4	13	2.76
ICRON TECHNOLOGY (4)	1185.8	122	3603.5	95	328.5	106	1013.3	106	27.7	29.8	45.5	8	4.69
OLEX (6)	344.5	25	1336.5	27	35.1	26	139.0	30	10.2	10.2	12.9	23	1.39
ATIONAL SEMICONDUCTOR (7)	711.6	22	2651.6	16	79.8	19	291.5	7	11.2	11.5	18.3	8	2.21
EAD-RITE (3)	299.2	36	1082.8	49	42.6	117	146.6	253	14.2	8.9	26.8	6	3.04
CI SYSTEMS (6)	1204.0	94	3514.4	56	22.2	118	62.3	96	1.8	1.6	15.4	18	2.13
LECTRON (4)	690.6	36	2249.5	37	27.3	50	88.7	43	4.0	3.6	15.5	25	1.93
EXAS INSTRUMENTS	3603.0	30	13128.0	27	291.0	55	1088.0	57	8.1	6.8	26.6	9	5.63
SHAY INTERTECHNOLOGY	298.0	9	1224.4	24	23.6	35	92.7	57	7.9	6.4	10.4	16	1.71
0 FOOD													
IDUSTRY COMPOSITE	**88913.6**	**5**	**338356.6**	**5**	**2634.3**	**9**	**10725.7**	**31**	**3.0**	**2.9**	**21.7**	**20**	**1.66**
) FOOD DISTRIBUTION													
ROUP COMPOSITE	**8850.0**	**4**	**35753.8**	**6**	**124.7**	**NM**	**488.6**	**42**	**1.4**	**NM**	**14.4**	**19**	**1.57**
TERNATIONAL MULTIFOODS (10)	632.1	–3	2505.5	13	6.8	–38	30.1	–25	1.1	1.7	10.0	11	1.66
FOODSERVICE (6)	302.3	11	1169.1	10	3.2	145	12.5	NM	1.1	0.5	11.7	23	0.91
'KOFF-SEXTON (8)	440.5	12	1658.2	10	2.9	–28	8.8	21	0.7	1.0	4.1	27	0.59
IPER FOOD SERVICES (4)	286.8**	5	1169.5	3	2.7	13	9.4	5	0.9	0.9	6.7	14	0.86
IPERVALU (10)	3886.6	–1	16529.8	1	38.4	NM	161.0	206	1.0	NM	13.5	14	2.33
'SCO (6)	3301.6	10	12721.8	10	70.7	11	266.8	14	2.1	2.1	18.5	22	1.46
) FOOD PROCESSING													
ROUP COMPOSITE	**42557.8**	**6**	**160832.0**	**7**	**1866.0**	**–6**	**7815.2**	**34**	**4.4**	**4.9**	**20.7**	**20**	**2.01**
CHER DANIELS MIDLAND (6)	3415.1	6	12970.6	7	226.0	3	810.3	26	6.6	6.8	13.5	13	1.52
MPBELL SOUP (5)	1990.0	7	7404.0	9	219.0	11	720.0	9	11.0	10.6	27.9	23	2.89
NAGRA (7)	6626.3	5	24637.1	3	167.1	11	523.1	13	2.5	2.4	19.1	21	2.20
C INTERNATIONAL	2390.7	18	8431.5	14	116.8	–14	512.1	48	4.9	6.8	26.2	22	3.43
AN FOODS (7)	705.4	6	2709.9	5	16.0	20	72.7	–9	2.3	3.0	12.1	15	1.82
LE FOOD	837.3	0	3803.8	9	5.3	NM	119.8	106	0.6	NM	11.3	19	2.00
OWERS INDUSTRIES (6)	290.5	8	1185.9	14	7.9	–25	41.3	23	2.7	3.9	13.5	20	0.73
NERAL MILLS (7)	1448.4	2	5177.4	3	145.7	8	289.5	–14	10.1	9.5	96.6	33	1.82
INZ (H. J.) (8)	2288.3	16	8757.9	19	158.2	13	629.4	14	6.9	7.1	25.5	21	1.68
RSHEY FOODS	1119.9	4	3690.7	2	105.8	327	281.9	53	9.5	2.3	27.6	22	3.40
RMEL FOODS (2)	835.1	–1	3046.2	–1	38.6	–29	120.4	2	4.6	6.5	16.5	16	1.57
DSON FOODS (3)	340.7	22	1261.2	18	9.0	–9	34.9	14	2.6	3.5	11.5	14	1.16
)	3160.3	–2	12667.6	5	57.0	–27	280.1	54	1.8	2.4	27.4	9	2.90
TERSTATE BAKERIES (7)	734.5	162	1873.9	62	6.1	1	20.6	53	0.8	2.2	4.6	27	0.82
LLOGG	1662.9	4	7003.7	7	–71.6	NM	490.3	-31	NM	9.6	26.3	36	2.24
NCASTER COLONY (6)	239.1	6	820.7	7	22.4	12	73.0	10	9.4	8.9	26.1	15	2.45
CORMICK (1)	556.3	9	1858.7	10	42.2	NM	97.5	59	7.6	NM	20.1	19	1.20
BISCO HOLDINGS	2350.0	9	8294.0	8	116.0	–3	314.0	18	4.9	5.5	7.5	31	1.20
GRIM'S PRIDE (3)	267.5	18	972.3	5	–0.7	NM	–8.1	NM	NM	0.2	–6.1	NM	–0.34
AKER OATS (6)	1179.5	–22	5954.0	–4	–47.8	NM	724.0	275	NM	2.3	62.2	6	5.39
LCORP HOLDINGS (3)	295.3	6	1030.3	3	14.7	–14	31.0	–43	5.0	6.1	19.1	31	0.92
LSTON PURINA (3)	1654.9	–17	6873.4	–8	128.5	27	327.5	76	7.8	5.1	61.4	21	3.10
RA LEE (6)	4898.0	5	18335.0	10	283.0	12	856.0	229	5.8	5.4	19.4	21	1.72
VANNAH FOODS & INDUSTRIES (3)	304.4	8	1120.5	4	3.5	–2	–3.6	NM	1.2	1.3	–2.1	NM	–0.13
ITHFIELD FOODS (8)	455.8	22	1644.0	12	4.6	–43	23.3	–21	1.0	2.2	12.3	20	1.32
ORN APPLE VALLEY (7)	251.2	35	837.2	8	–1.8	NM	–11.9	NM	NM	4.1	–13.0	NM	–2.07
SON FOODS (3)	1546.8	17	5731.6	8	43.3	–17	210.3	NM	2.8	3.9	14.3	17	1.45
R FOODS (6)	267.8	8	969.2	18	4.8	–29	12.0	–45	1.8	2.7	7.0	22	0.68
IGLEY (WM.) JR.	446.0**	13	1769.7	7	46.3	34	223.7	–3	10.4	8.8	27.4	32	1.93
FOOD RETAILING													
OUP COMPOSITE	**37505.8**	**4**	**141779.7**	**3**	**643.6**	**45**	**2422.0**	**20**	**1.7**	**1.2**	**29.6**	**18**	**1.07**
ERTSON'S (11)	3103.6	6	12375.3	4	105.4	12	455.1	14	3.4	3.2	24.4	20	1.80
ERICAN STORES (11)	4361.2	–2	17864.9	–4	67.4	31	325.5	3	1.5	2.2	14.5	13	2.24
SEY'S GENERAL STORES (8)	244.6*	9	905.4	13	8.8	17	25.6	26	3.6	3.3	13.0	23	0.98
CLE K (8)	896.6	–1	3564.6	NA	11.2	17	34.5	NA	1.3	1.1	12.1	14	1.50
CHAMPS (6)	277.1	6	1089.2	3	0.8	381	–27.3	NM	0.3	0.1	–25.1	NM	–3.83
LE FOOD CENTERS (11)	246.2	–2	1001.3	–2	–2.6	NM	–16.6	NM	NM	NM	–54.4	NM	–1.49
D LION	2535.4	3	8210.9	4	55.0	9	172.4	13	2.2	2.1	15.9	16	0.36
NT FOOD (10)	870.7	4	3801.2	4	17.4	–6	97.8	9	2.0	2.2	12.5	20	1.66
EAT ATLANTIC & PACIFIC TEA (10)	2293.6	–2	10140.4	–2	7.7	NM	37.4	NM	0.3	NM	4.7	24	0.98
NNAFORD BROTHERS	680.6**	11	2568.1	12	16.9	2	70.2	13	2.5	2.7	13.9	17	1.67
LES MARKETS (3)	357.4	8	1412.3	12	4.7	23	17.9	8	1.3	1.2	10.9	11	0.98
SH N' KARRY FOOD STORES (5)	250.4	4	NA	NA	–1.8	NM	NA	NA	NM	NM	–3.6	NA	NA
GER	5860.7	5	23937.8	4	109.2	19	318.9	19	1.9	1.6	NM	14	2.65

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
PENN TRAFFIC (11)	844.6**	2	3448.3	4	–0.4	NM	–43.8	NM	NM	0.6	NM	NM	–4.05
QUALITY FOOD CENTERS	239.3	25	729.9	27	6.5	–22	20.2	–23	2.7	4.4	45.2	17	1.28
RUDDICK (3)	529.7	7	2092.1	8	8.0	–3	39.0	15	1.5	1.7	12.1	13	0.84
SAFEWAY	5166.3	6	16397.5	5	113.9	33	328.3	31	2.2	1.8	43.3	20	1.35
SMITH'S FOOD & DRUG CENTERS	798.3	6	3083.7	3	–70.1	NM	–40.5	NM	NM	1.9	–8.3	NM	–1.62
SOUTHLAND	1643.0**	–1	6816.8	1	82.2	226	167.6	82	5.0	1.5	NM	8	0.40
STOP & SHOP (11)	901.2	5	3924.9	5	12.6	–25	81.6	3	1.4	2.0	27.5	16	1.56
SUPERMARKETS GENERAL HOLDING (11)	996.0	–4	4201.7	0	–4.6	NM	35.7	43	NM	0.0	NM	NA	NA
WEIS MARKETS	436.8	0	1646.4	6	22.8	2	79.4	4	5.2	5.1	10.0	16	1.84
WINN-DIXIE STORES (6)	3972.6	12	12567.2	11	72.5	7	243.0	9	1.8	1.9	18.3	23	1.61
11 FUEL													
INDUSTRY COMPOSITE	114270.4	3	448461.3	9	2420.7	–51	15965.5	5	2.1	4.5	10.6	23	2.48
(A) COAL, OIL & GAS													
GROUP COMPOSITE	108658.5	3	427450.6	9	2128.2	–54	15294.7	8	2.0	4.4	11.0	22	2.64
AMERADA HESS	2105.2**	18	7524.8	12	–274.8	NM	–394.4	NM	NM	0.5	–13.3	NM	–4.24
AMOCO	6972.0	2	27066.0	4	207.0	–61	1862.0	4	3.0	7.9	12.4	19	3.76
ASHLAND (3)	2935.0	9	11491.0	17	87.0	149	76.0	–56	3.0	1.3	3.9	44	0.88
ATLANTIC RICHFIELD	4007.0	2	15819.0	5	348.0	12	1376.0	50	8.7	7.9	20.5	14	8.42
BURLINGTON RESOURCES	236.5	–2	872.5	–17	22.6	–57	–279.6	NM	9.6	22.0	–12.6	NM	–2.20
CHEVRON	9157.0***	–1	37082.0	4	–418.0	NM	930.0	–45	NM	6.7	6.1	38	1.43
COASTAL	2669.7	14	10447.7	2	111.4	36	270.4	16	4.2	3.5	9.8	16	2.40
DIAMOND SHAMROCK	724.1	7	2936.8	13	8.1	–48	47.3	–38	1.1	2.3	7.0	21	1.48
EXXON	27065.0**	–1	109620.0	8	1680.0	–12	6470.0	27	6.2	6.9	16.0	16	5.18
FINA	861.8	–3	3606.6	5	–15.8	NM	104.4	2	NM	4.0	8.6	14	3.35
KERR-McGEE	424.6	4	1801.2	12	36.8	75	–24.1	NM	8.7	5.1	–1.7	NM	0.47
LOUISIANA LAND & EXPLORATION	212.3**	3	830.5	4	7.1	NM	18.8	NM	3.3	NM	5.2	76	0.56
MAPCO	803.5**	–2	3310.0	8	8.0	–79	74.7	–6	1.0	4.6	11.5	23	2.51
MOBIL	19766.0***	3	74878.9	11	775.0	48	2376.0	35	3.9	2.7	13.3	19	5.87
MURPHY OIL	427.7**	5	1711.2	1	–162.8	NM	–118.6	NM	NM	4.4	–9.2	NM	–2.64
NGC	1077.7	29	3665.9	10	18.0	96	92.7	120	1.7	1.1	17.3	14	0.82
OCCIDENTAL PETROLEUM	2473.0	–4	10423.0	13	7.0	NM	511.0	NM	0.3	0.0	12.4	17	1.31
ORYX ENERGY	206.0**	–27	1129.0	5	12.0	–14	158.0	NM	5.8	4.9	NM	9	1.54
PENNZOIL	608.0**	–8	2490.0	–3	–27.8	NM	–305.1	NM	NM	NM	–35.7	NM	–6.60
PHILLIPS PETROLEUM	3321.0	10	13368.0	9	109.0	–33	469.0	–3	3.3	5.4	14.7	19	1.79
QUAKER STATE	261.2	17	1035.6	41	–2.0	NM	1.8	–82	NM	0.8	0.6	NM	0.06
SUN	2501.0***	–13	10419.0	5	18.0	500	227.0	134	0.7	0.1	19.6	12	2.24
TESORO PETROLEUM	227.8**	4	970.2	12	11.5	–25	57.5	181	5.0	7.0	27.7	4	2.29
TEXACO	9652.0**	8	36792.0	10	–251.0	NM	728.0	–26	NM	4.3	7.1	32	2.57
TOSCO	1866.8	4	7284.0	14	33.8	62	77.1	–8	1.8	1.2	12.9	21	2.06
ULTRAMAR	711.7	1	2714.4	7	21.0	144	47.6	–30	3.0	1.2	8.2	23	1.18
UNION TEXAS PETROLEUM HOLDINGS	214.0**	0	852.0	14	24.0	41	102.0	52	11.2	7.9	24.4	16	1.17
UNOCAL	2224.0***	12	8425.0	6	49.0	NM	260.0	110	2.2	NM	9.3	34	0.9
USX–MARATHON GROUP	3514.0*	3	13871.0	9	–365.0	NM	–83.0	NM	NM	1.1	–2.6	NM	–0.3
VALERO ENERGY	844.3	50	3019.8	64	12.9	236	59.8	123	1.5	0.7	4.6	23	1.1
VASTAR RESOURCES	588.6	47	1993.4	20	38.4	–4	102.6	31	6.5	9.9	143.9	27	1.0
(B) PETROLEUM SERVICES													
GROUP COMPOSITE	5611.8	12	21010.7	10	292.5	–13	670.8	–31	5.2	6.7	6.1	50	1.0
BAKER HUGHES (3)	694.7	14	2725.2	10	32.4	34	128.2	–7	4.7	4.0	8.1	34	0.7
BJ SERVICES (3)	206.5	73	720.7	60	9.1	93	14.3	20	4.4	4.0	3.1	50	0.5
COOPER CAMERON	285.7**	–3	1144.0	3	–27.8	NM	–500.1	NM	NM	NM	NM	NM	–19.8
HALLIBURTON	1537.4**	4	5698.7	3	71.9	41	233.8	36	4.7	8.3	11.9	26	2.0
SCHLUMBERGER	2063.5	16	7621.7	14	166.7	8	649.2	21	8.1	8.7	13.3	27	2.6
SMITH INTERNATIONAL	239.5**	21	874.5	34	12.9	23	45.6	27	5.4	5.3	15.8	19	1.1
WESTERN ATLAS	584.5	6	2225.8	3	27.2	26	99.8	28	4.7	3.9	7.4	30	1.8
12 HEALTH CARE													
INDUSTRY COMPOSITE	67901.3	17	258204.5	19	4515.4	13	22113.4	18	6.7	6.9	23.4	25	2.4
(A) DRUG DISTRIBUTION													
GROUP COMPOSITE	16546.7	11	64886.7	14	199.7	NM	1039.9	331	1.2	NM	16.2	22	1.6
AMERISOURCE HEALTH (3)	1282.5	14	4822.4	10	8.9	899	36.2	NM	0.7	0.1	NM	16	1.7
BERGEN BRUNSWIG (3)	2377.4**	20	8841.1	16	15.6	15	66.0	11	0.7	0.7	12.7	16	1.6
CARDINAL HEALTH (6)	2131.6	7	8180.3	18	18.7	–25	90.3	72	0.9	1.2	13.5	29	1.9
ECKERD (11)	1164.9	9	4798.1	8	5.6	826	93.0	34	0.5	0.1	NM	16	2.7
FAY'S (11)	250.2	4	1077.2	12	1.3	–40	9.7	–18	0.5	0.9	8.3	16	0.4
LONGS DRUG STORES (11)	628.9	2	2610.3	2	8.8	37	51.9	7	1.4	1.0	10.1	18	2.5
McKESSON (9)	3549.7**	6	13582.2	5	32.9	NM	137.0	NM	0.9	NM	13.0	18	2.9
REVCO D. S. (7)	1137.0	11	4924.0	56	11.5	130	70.2	61	1.0	0.5	8.8	27	1.0
RITE AID (10)	1331.8	22	5368.8	26	32.7	21	155.2	285	2.5	2.5	14.6	18	1.8
WALGREEN (4)	2692.8	12	10682.3	12	63.7	18	330.5	13	2.4	2.2	18.1	27	1.1
(B) DRUGS & RESEARCH													
GROUP COMPOSITE	22017.1	17	82586.3	19	2157.7	–12	12635.2	11	9.8	13.1	28.8	25	2.8
ALLERGAN	303.1	12	1067.2	13	39.6	14	72.5	–35	13.1	12.9	11.5	34	1.
AMERICAN HOME PRODUCTS	3328.0	29	13376.1	49	81.7	–80	1680.4	10	2.5	15.5	30.4	19	5.
AMGEN	513.5	16	1939.9	18	145.6	NM	537.7	68	28.4	1.1	32.2	33	1

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CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL.	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS EARNING PER SHARE
BRISTOL-MYERS SQUIBB	3608.0	11	13767.0	15	142.0	NM	1812.0	–2	NM	3.0	28.7	25	3.58
GENENTECH	221.9**	7	917.8	15	25.6	38	146.4	18	11.6	8.9	9.6	46	1.21
LILLY (ELI)	1799.8	16	6763.8	18	311.3	15	1306.6	10	17.3	17.4	23.8	27	2.30
MERCK	4557.0	18	16681.1	11	857.8	11	3335.2	11	18.8	20.0	29.0	26	2.70
PERRIGO (6)	201.0	15	765.8	13	12.2	5	41.2	–22	6.1	7.4	11.7	24	0.54
PFIZER	2744.3	24	10021.4	26	405.6	24	1554.2	22	14.8	14.7	29.4	28	2.47
RHONE-POULENC RORER	1589.7	13	5142.1	15	57.8	–67	356.5	–3	3.6	12.3	20.3	24	2.50
SCHERING-PLOUGH	1290.9	11	5104.4	13	239.4	13	1053.0	14	18.5	18.2	62.1	20	2.85
WARNER-LAMBERT	1859.9	8	7039.8	10	123.1	–11	739.5	7	6.6	8.0	33.9	18	5.48
(C) HEALTH-CARE SERVICES													
GROUP COMPOSITE	**16872.6**	**28**	**61926.2**	**27**	**837.4**	**32**	**2813.9**	**19**	**5.0**	**4.8**	**14.5**	**23**	**1.65**
BEVERLY ENTERPRISES	811.6**	6	3242.8	9	–63.8	NM	–8.1	NM	NM	2.5	–1.7	NM	–0.16
CAREMARK INTERNATIONAL	647.8	33	2374.3	34	–29.7	NM	20.2	–63	NM	3.9	5.6	NM	0.27
COLUMBIA/HCA HEALTHCARE	4583.0	17	17695.0	22	354.0	24	1064.0	15	7.7	7.3	15.7	24	2.37
FHP INTERNATIONAL (6)	1015.7	6	4021.0	25	13.9	–35	23.1	–71	1.4	2.2	–0.3	NM	–0.08
FOUNDATION HEALTH (6)	768.0	28	2757.4	20	41.6	NM	156.1	748	5.4	NM	18.5	15	2.71
HEALTH SYSTEMS INTERNATIONAL	741.0	26	2732.1	18	23.4	–2	89.6	2	3.2	4.1	34.6	18	1.83
HORIZON/CMS HEALTHCARE (7)	440.8**	10	1218.3	21	19.5	NM	8.2	–65	4.4	0.3	1.3	64	0.41
HUMANA	1460.0**	59	4605.0	29	49.0	2	190.0	8	3.4	5.2	15.5	23	1.17
LIVING CENTERS OF AMERICA (3)	270.4	34	962.1	30	10.9	64	28.3	6	4.0	3.3	9.0	25	1.43
MAGELLAN HEALTH SERVICES (3)	295.7	12	1183.6	23	9.7	NM	–33.6	NM	3.3	0.1	–40.4	NM	–1.19
MANOR CARE (7)	394.9	22	1444.6	17	28.8	15	102.3	17	7.3	7.7	15.1	24	1.63
NOVACARE (6)	201.0	–13	841.4	–4	7.4	–16	57.4	4	3.7	3.8	12.0	7	0.89
ORNDA HEALTHCORP (4)	493.6**	18	1918.2	35	19.9	49	77.9	NM	4.0	3.2	20.3	16	1.64
OXFORD HEALTH PLANS	537.6**	114	1765.7	132	15.6	71	52.4	86	2.9	3.6	23.8	59	1.43
PACIFICARE HEALTH SYSTEMS (3)	1077.3**	30	4021.2	30	28.0	40	116.0	29	2.6	2.4	15.1	23	3.79
QUORUM HEALTH GROUP (6)	273.2	37	985.1	28	16.9	23	62.2	31	6.2	6.9	16.0	20	1.26
TENET HEALTHCARE (7)	1370.9	115	4671.2	72	182.8	296	385.3	81	13.3	7.2	16.3	12	1.94
U. S. HEALTHCARE	954.0**	26	3517.8	21	100.9	–6	380.7	–3	10.6	14.2	42.3	19	2.42
UNITED WISCONSIN SERVICES	274.1**	20	1038.3	35	1.6	–82	6.4	–81	0.6	3.9	3.0	41	0.50
UNIVERSAL HEALTH SERVICES	262.1**	28	931.1	19	6.9	54	35.5	24	2.6	2.2	12.2	20	2.52
(D) MEDICAL PRODUCTS													
GROUP COMPOSITE	**12465.0**	**11**	**48805.2**	**15**	**1320.7**	**26**	**5624.5**	**19**	**10.6**	**9.4**	**22.8**	**25**	**2.38**
ABBOTT LABORATORIES	2596.7	5	10012.2	9	465.4	10	1688.7	11	17.9	17.0	39.5	21	2.12
BARD (C. R.)	291.0	6	1137.8	7	22.8	322	86.8	15	7.8	2.0	16.0	24	1.53
BAUSCH & LOMB	455.1	–6	1932.9	2	–3.4	NM	112.0	260	NM	NM	11.7	21	1.94
BAXTER INTERNATIONAL	1354.0	9	5048.0	13	148.0	11	371.0	–9	10.9	10.7	4.2	32	1.34
BECTON, DICKINSON (3)	639.9	8	2759.0	6	44.5	33	262.7	12	7.0	5.7	18.8	23	3.78
JOHNSON & JOHNSON	4846.0	18	18842.0	20	465.0	23	2403.0	20	9.6	9.2	27.0	27	3.72
MALLINCKRODT GROUP (6)	528.2	12	2228.4	14	38.3	9	182.8	81	7.3	7.5	15.6	17	2.36
MEDTRONIC (8)	520.1	27	1974.3	28	103.6	49	362.6	40	19.9	17.1	24.0	38	1.57
OWENS & MINOR	746.7	2	2976.5	24	–9.0	NM	–11.3	NM	NM	0.9	–12.5	NM	–0.53
STRYKER	224.1	10	872.0	28	25.7	20	87.0	20	11.5	10.4	20.3	32	1.80
U. S. SURGICAL	263.3	16	1022.3	11	19.8	236	79.2	313	7.5	2.6	8.1	25	1.05
13 HOUSING & REAL ESTATE													
INDUSTRY COMPOSITE	**12159.6**	**11**	**46173.6**	**10**	**358.4**	**–7**	**2218.7**	**36**	**2.9**	**3.5**	**18.2**	**16**	**2.11**
(A) BUILDING MATERIALS													
GROUP COMPOSITE	**8215.5**	**8**	**32725.4**	**11**	**238.1**	**–16**	**1817.9**	**57**	**2.9**	**3.7**	**23.5**	**15**	**2.47**
AMERICAN STANDARD	1311.0	14	5221.3	17	23.0	NM	142.4	NM	1.8	NM	NM	15	1.90
LAFARGE	368.9	–9	1472.2	–6	36.1	12	129.6	61	9.8	8.0	13.5	10	1.88
NORTEK	203.6	15	776.2	5	4.1	–11	15.0	–13	2.0	2.6	11.6	10	1.19
OWENS CORNING	964.0	9	3612.0	8	66.0	53	231.0	212	6.8	4.9	NM	10	4.64
PPG INDUSTRIES	1722.4	4	7057.7	11	161.2	7	767.6	49	9.4	9.1	29.1	13	3.80
RPM (7)	276.9	9	1066.3	17	15.8	4	62.9	10	5.7	6.0	14.6	14	1.08
SHERWIN-WILLIAMS	740.9	5	3273.8	6	33.8	10	200.7	8	4.6	4.4	17.0	18	2.34
TECUMSEH PRODUCTS	382.4	4	1716.0	12	24.1	–15	119.2	–1	6.3	7.8	13.6	10	5.45
TEXAS INDUSTRIES (7)	244.3**	21	904.8	18	21.5	79	63.8	54	8.8	6.0	17.8	11	5.53
USG	602.0	0	2444.0	7	–25.0	NM	–32.0	NM	NM	NM	NM	NM	–0.71
VALSPAR (2)	205.6	6	790.2	1	14.5	18	47.5	4	7.1	6.3	23.7	21	2.15
VULCAN MATERIALS	361.8	4	1461.0	17	43.4	36	166.2	70	12.0	9.1	20.9	12	4.6
YORK INTERNATIONAL	831.7	27	2929.9	21	–180.4	NM	–96.1	NM	NM	3.3	–12.0	NM	2.30
(B) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	**3944.1**	**16**	**13448.2**	**7**	**120.4**	**19**	**400.8**	**–17**	**3.1**	**3.0**	**8.9**	**18**	**1.20**
CENTEX (9)	790.1**	0	3074.0	7	15.2	16	46.5	–56	1.9	1.6	6.7	19	1.60
CLAYTON HOMES (6)	211.2	19	838.7	21	22.7	25	95.9	26	10.8	10.2	16.8	19	1.02
HOVNANIAN ENTERPRISES (2)	331.7**	63	777.7	10	10.6	NM	14.1	23	3.2	NM	8.5	12	0.6
KAUFMAN & BROAD HOME (1)	478.9	18	1396.5	5	17.9	14	29.1	–38	3.7	3.9	4.8	22	0.7
LENNAR (1)	274.0**	25	870.5	6	20.0	18	70.4	3	7.3	7.7	12.1	13	1.9
OAKWOOD HOMES (3)	204.4**	22	858.7	19	13.9	69	52.3	37	6.8	4.9	15.7	19	2.2
PULTE	667.5**	25	2029.1	16	23.5	36	48.8	–22	3.5	3.2	6.6	18	1.7
RYLAND GROUP	448.0	2	1585.1	–2	–23.8	NM	–25.5	NM	NM	0.2	–9.2	NM	–1.7
U. S. HOME	298.8**	9	1107.9	11	11.1	19	36.9	12	3.7	3.4	11.9	9	3.1
WEBB (DEL) (6)	239.5**	36	910.0	43	9.2	39	32.3	41	3.8	3.8	11.5	10	1.9

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OMPANY	SALES 4TH QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
4 LEISURE TIME INDUSTRIES													
IDUSTRY COMPOSITE	24681.4	9	87262.0	11	1707.3	36	6472.5	18	6.9	5.6	16.9	24	1.85
) EATING PLACES													
ROUP COMPOSITE	4603.2	10	17847.2	13	392.9	28	1619.4	10	8.5	7.4	15.9	26	1.63
IB EVANS FARMS (8)	207.7	7	788.2	7	13.0	–8	53.6	4	6.3	7.3	12.9	13	1.27
INKER INTERNATIONAL (6)	289.7	17	1127.6	18	–13.6	NM	40.1	–42	NM	6.5	6.9	24	0.55
ACKER BARREL OLD COUNTRY STORE (5)	221.0	20	819.2	22	16.8	8	67.2	14	7.6	8.4	13.1	17	1.11
RDEN RESTAURANTS (7)	731.2	0	3208.9	5	16.3	39	11.9	–90	2.2	1.6	1.0	NA	NA
ODMAKER (3)	330.6**	13	1055.7	9	4.7	NM	8.0	NM	1.4	NM	29.4	32	0.21
DONALD'S	2585.5	14	9794.5	18	366.8	19	1427.3	17	14.2	13.6	18.9	27	1.97
IONEY'S (2)	237.5	–3	1053.2	–1	–11.2	NM	11.2	–79	NM	5.2	NM	31	0.27
) HOTEL & MOTEL													
ROUP COMPOSITE	4707.2	9	15769.9	8	253.8	87	869.3	39	5.4	3.2	15.5	24	1.64
LLY ENTERTAINMENT	263.4**	14	1023.9	9	46.2	NM	76.7	NM	17.5	NM	16.1	12	1.34
RCUS CIRCUS ENTERPRISES (11)	354.2	16	1254.8	8	46.6	27	124.1	–5	13.2	11.9	10.5	23	1.34
RRAH'S ENTERTAINMENT	378.4	10	1550.1	16	–36.5	NM	78.8	58	NM	NM	12.9	37	0.76
TON HOTELS	457.6**	12	1649.4	9	63.1	66	172.8	42	13.8	9.3	14.3	25	3.56
RRIOTT INTERNATIONAL	2910.0	8	8961.0	6	90.0	25	247.0	24	3.1	2.7	25.6	25	1.87
RAGE RESORTS	343.5	10	1330.7	6	44.5	40	169.9	36	12.9	10.2	14.7	23	1.77
) OTHER LEISURE													
OUP COMPOSITE	15371.1	9	53644.9	11	1060.6	30	3983.8	18	6.9	5.8	17.8	23	2.02
ERICAN GREETINGS (10)	587.6	7	1957.6	6	17.5	–70	113.1	–22	3.0	10.7	9.4	18	1.52
UNSWICK	702.3	7	3041.4	13	22.2	23	134.2	4	3.2	2.7	13.5	17	1.39
RNIVAL (1)	453.0	10	1998.2	11	84.2	20	451.0	18	18.6	17.1	21.5	17	1.59
NEY (WALT) (3)	3818.0	16	12628.4	19	496.0	3	1393.7	14	13.0	14.6	21.0	24	2.63
STMAN KODAK	4092.0	6	14980.0	11	275.0	NM	1252.0	126	6.7	NM	26.3	21	3.67
ETWOOD ENTERPRISES (8)	719.0	1	2818.5	3	24.0	13	81.0	–6	3.3	3.0	12.6	15	1.74
RLEY-DAVIDSON	372.9	20	1350.5	17	30.6	21	111.1	15	8.2	8.1	23.8	23	1.48
RMAN INTERNATIONAL INDUSTRIES (6)	348.7	21	1302.0	31	15.5	27	46.4	36	4.4	4.2	15.7	13	2.86
SBRO	1023.7	9	2858.2	7	85.2	12	155.6	–13	8.3	8.1	10.2	20	1.76
TTEL	1155.3	12	3638.8	14	112.0	161	357.8	40	9.7	4.2	27.5	21	1.58
SICLAND STORES	686.9	8	1722.6	16	22.6	–7	–135.8	NM	3.3	3.8	–69.3	NM	–4.00
TBOARD MARINE (3)	232.1	4	1218.7	8	–12.4	NM	42.1	–23	NM	NM	17.4	10	2.09
AROID	674.8	–2	2236.9	–3	–111.0	NM	–140.2	NM	NM	8.4	–17.3	NM	–3.09
AL CARIBBEAN CRUISES	289.8	3	1184.0	1	16.4	–22	149.0	5	5.7	7.4	16.3	10	2.35
O TOYS	215.1	–13	709.1	–6	–17.3	NM	–27.2	NM	NM	NM	–10.7	NM	–0.87
MANUFACTURING													
USTRY COMPOSITE	42429.1	12	161400.6	15	2366.2	4	9016.2	12	5.6	6.0	17.8	18	2.17
GENERAL MANUFACTURING													
OUP COMPOSITE	14620.3	11	57210.1	15	848.3	–7	3299.7	0	5.8	6.9	14.8	24	1.95
IANT TECHSYSTEMS (9)	302.4	75	1180.9	52	11.8	215	–36.3	NM	3.9	2.2	–25.9	NM	–4.01
RY DENNISON	776.7	5	3113.9	9	37.7	32	143.7	31	4.9	3.9	17.6	20	2.70
LISLE	217.2	28	822.5	19	10.6	25	44.1	24	4.9	5.0	16.4	15	2.82
NING	1338.7**	5	5346.1	11	83.5	139	–50.8	NM	6.2	2.7	–2.5	NM	–0.23
ACELL INTERNATIONAL (6)	784.1	7	2179.7	9	120.3	8	245.6	11	15.3	15.2	17.5	25	2.03
ERAL SIGNAL	221.8	14	816.1	21	11.7	–15	51.6	10	5.3	7.1	21.2	24	1.13
T BRANDS (6)	263.1	13	1053.2	2	14.6	24	52.8	–3	5.6	5.1	12.8	20	2.49
SCO†	387.2	10	1495.5	10	29.0	3	97.4	13	7.5	7.9	15.6	16	3.86
ENBRAND INDUSTRIES (1)	425.0	–3	1624.9	3	8.7	–79	89.9	0	2.1	9.2	12.1	26	1.27
NOIS TOOL WORKS	1087.2	16	4152.2	20	106.3	25	387.6	40	9.8	9.0	20.1	19	3.29
NSON CONTROLS (3)	2186.3	18	8659.0	21	47.0	14	201.6	20	2.2	2.2	14.6	16	4.65
K IV INDUSTRIES (10)	525.5	32	2038.5	42	23.0	39	89.3	44	4.4	4.2	12.6	14	1.50
NESOTA MINING & MFG.	3305.0	7	13460.0	11	266.0	–10	1306.0	8	8.0	9.5	18.0	22	3.11
VELL	669.2	14	2498.4	20	66.4	7	222.5	14	9.9	10.6	18.0	20	1.41
KER HANNIFIN (6)	824.4	12	3427.1	21	48.4	18	239.3	124	5.9	5.6	19.4	11	3.24
ARIS INDUSTRIES	282.3	17	1113.9	35	16.8	–15	60.8	11	5.9	8.1	60.3	14	2.19
BERMAID	582.0	3	2344.2	8	–73.5	NM	59.8	–74	NM	9.6	4.7	76	0.38
IOVA	442.3	–3	1884.0	5	20.0	11	94.9	44	4.5	4.0	24.2	10	3.20
MACHINE & HAND TOOLS													
OUP COMPOSITE	3355.6	9	11948.6	12	193.2	17	574.4	19	5.8	5.4	13.8	19	1.91
CK & DECKER	1440.4	6	4766.1	9	137.0	199	216.5	141	9.5	3.4	17.9	15	2.33
AHER	430.2	38	1486.8	33	29.4	29	105.8	46	6.8	7.3	19.1	19	1.77
INGS & LEWIS	208.9	13	730.6	18	–18.5	NM	6.5	–87	NM	12.9	1.3	78	0.19
NAMETAL (6)	259.2	13	1048.8	19	13.9	17	73.3	55	5.4	5.2	17.9	11	2.76
P-ON	347.1**	9	1292.1	8	30.8	16	113.3	15	8.9	8.4	15.1	16	2.76
NLEY WORKS	669.8	1	2624.3	5	0.6	–98	59.1	–53	0.1	5.1	8.0	42	1.33
SPECIAL MACHINERY													
UP COMPOSITE	20939.1	15	78173.3	17	1265.8	20	4768.7	26	6.0	5.8	22.4	14	2.75
)	598.5	27	2125.0	56	33.7	–37	129.1	12	5.6	11.3	21.6	9	2.76
IED MATERIALS (2)	982.7	110	3061.9	84	155.4	146	454.1	112	15.8	13.5	25.5	15	2.56
GS & STRATTON (6)	329.4	–10	1263.9	–7	23.9	–29	80.3	–29	7.3	9.2	18.7	16	2.77

CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 %	4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS EARNINGS PER SHARE
CASE	1282.0	13	4937.0	16	78.0	70	346.0	110	6.1	4.0	23.5	11	4.7
CATERPILLAR	4213.0	7	16072.0	12	300.0	8	1136.0	19	7.1	7.1	32.5	11	5.
COLTEC INDUSTRIES	351.9	3	1401.9	6	21.8	–16	71.2	–24	6.2	7.6	NM	12	1
DEERE (2)	2719.0**	8	10290.5	15	150.6	-11	706.1	17	5.5	6.8	22.9	14	2.
DOVER	1009.0	20	3745.9	21	68.5	23	278.3	38	6.8	6.6	23.7	19	2.4
DRESSER INDUSTRIES (2)	1629.8	15	5628.7	6	84.4	14	213.1	41	5.2	5.2	12.9	23	1.
FMC	1209.9	16	4509.8	12	28.4	12	215.6	24	2.3	2.4	35.3	13	5
HARNISCHFEGER INDUSTRIES (2)	623.3**	33	2213.9	41	30.3	53	103.5	183	4.9	4.2	18.5	16	2.
INGERSOLL-RAND	1629.9	31	5728.9	27	95.6	22	270.3	28	5.9	6.3	15.7	16	2.
INTERLAKE	207.6	0	831.1	10	2.8	NM	4.2	NM	1.4	NM	NM	12	0.
LAM RESEARCH (6)	290.5	68	1030.1	69	33.5	77	119.2	116	11.5	11.0	25.9	10	4
McDERMOTT INTERNATIONAL (9)	766.5	7	3234.1	9	6.6	–78	5.7	–86	0.9	4.2	–0.4	NM	–0.
PENTAIR	377.5	11	1402.9	11	18.0	23	60.5	21	4.8	4.3	12.4	19	2
STEWART & STEVENSON SERVICES (11)	323.8	6	1220.5	11	15.0	–15	66.4	1	4.6	5.8	14.4	12	2
TIMKEN	556.3	11	2230.5	16	27.8	8	112.4	64	5.0	5.1	14.0	13	3.
TYCO INTERNATIONAL (6)	1243.9	13	4842.8	14	70.8	166	273.0	49	5.7	2.4	16.2	21	1
VARITY (11)	594.7	1	2402.0	16	20.8	–37	123.8	20	3.5	5.6	14.7	13	2.
(D) TEXTILES													
GROUP COMPOSITE	**3514.1**	**3**	**14068.7**	**6**	**58.9**	**–60**	**373.4**	**–26**	**1.7**	**4.4**	**12.5**	**17**	**0.**
BURLINGTON INDUSTRIES (3)	512.7	0	2207.0	2	8.5	–34	64.0	-31	1.7	2.5	11.1	13	0
COLLINS & AIKMAN (11)	380.9	–6	1507.9	1	20.6	–33	89.7	167	5.4	7.7	NM	7	1.
CONE MILLS	219.4	7	910.2	13	–11.9	NM	–3.3	NM	NM	3.6	–3.1	NM	–0
FIELDCREST CANNON	284.6	–4	1095.2	3	–17.7	NM	–15.7	NM	NM	3.4	–8.7	NM	2
MOHAWK INDUSTRIES	415.1	15	1648.6	15	–10.1	NM	6.4	–81	NM	2.1	2.3	70	0.
SHAW INDUSTRIES	706.6	–1	2869.8	3	19.3	-31	64.4	–51	2.7	3.9	9.2	27	0.
SPRINGS INDUSTRIES	593.5	11	2233.1	8	26.1	10	71.6	15	4.4	4.5	10.0	11	3.
UNIFI (6)	401.4	4	1596.9	10	24.1	–14	96.2	16	6.0	7.3	16.4	16	1.
16 METALS & MINING													
INDUSTRY COMPOSITE	**19957.6**	**8**	**79989.3**	**17**	**1080.3**	**–11**	**4764.7**	**93**	**5.4**	**6.6**	**19.0**	**11**	**2.**
(A) ALUMINUM													
GROUP COMPOSITE	**6982.1**	**15**	**27480.8**	**22**	**323.1**	**–25**	**1534.7**	**290**	**4.6**	**7.0**	**19.0**	**11**	**4.**
ALUMAX	738.6	–4	2926.1	6	44.8	5	237.4	408	6.1	5.5	16.9	6	5
ALUMINUM CO. OF AMERICA	3107.8	18	12499.7	26	150.9	–59	790.5	78	4.9	13.9	18.2	13	4
KAISER ALUMINUM	591.1	33	2237.8	26	21.0	NM	60.3	NM	3.6	NM	93.2	22	0
MAXXAM	672.6	25	2565.2	21	22.4	NM	57.5	NM	3.3	NM	NM	7	6
REYNOLDS METALS	1872.0**	11	7252.0	21	84.0	22	389.0	219	4.5	4.1	17.0	10	5
(B) STEEL													
GROUP COMPOSITE	**9586.8**	**1**	**39088.2**	**9**	**332.3**	**–41**	**1844.2**	**24**	**3.5**	**6.0**	**19.0**	**9**	**2.**
AK STEEL HOLDING	526.7	–5	2257.3	12	54.7	-71	268.6	–1	10.4	33.6	38.7	4	9
ALLEGHENY LUDLUM	334.9	2	1494.3	39	21.4	13	114.8	530	6.4	5.8	30.6	12	1
ARMCO	396.8	18	1559.9	9	–8.4	NM	23.5	–64	NM	1.6	NM	NM	0
BETHLEHEM STEEL	1151.9	6	4867.5	1	32.4	4	179.6	123	2.8	2.6	10.8	13	1
CARPENTER TECHNOLOGY (6)	210.1	22	823.6	21	12.3	25	56.9	33	5.9	5.7	20.7	12	3
COMMERCIAL METALS (4)	590.2**	43	2293.3	35	10.8	70	42.7	59	1.8	1.5	14.2	10	2
INLAND STEEL INDUSTRIES	1121.7	–3	4781.4	6	24.9	-31	146.8	37	2.2	3.1	16.8	10	2
LTV	1044.9	–8	4283.2	1	34.8	–14	193.5	49	3.3	3.6	12.8	8	1
LUKENS	262.7	4	1049.2	11	6.7	-38	34.0	53	2.5	4.2	11.9	13	2
NATIONAL STEEL	740.1	0	2954.2	9	14.8	–46	105.4	–37	2.0	3.7	18.5	6	2
QUANEX (2)	228.8	16	891.2	27	9.8	30	33.9	80	4.3	3.8	17.5	9	2
ROUGE STEEL	305.1	1	1206.6	–2	9.8	–66	94.7	–10	3.2	9.6	24.0	5	4
USX–U. S. STEEL GROUP	1647.0	0	6456.0	6	62.0	-31	303.0	51	3.8	5.5	21.6	10	3
WEIRTON STEEL	336.6	11	1351.7	7	2.9	–87	55.1	41	0.8	7.2	36.9	3	1
WHX	334.7	1	1364.6	14	17.4	–5	81.1	–6	5.2	5.6	7.7	6	2
WORTHINGTON INDUSTRIES (7)	354.5	–2	1454.3	3	26.2	–7	110.7	12	7.4	7.8	18.0	17	1
(C) OTHER METALS													
GROUP COMPOSITE	**3388.8**	**18**	**13420.4**	**33**	**424.8**	**90**	**1385.8**	**132**	**12.5**	**7.8**	**19.1**	**12**	**2.**
ASARCO	799.6	36	3197.8	57	–11.3	NM	169.2	164	NM	8.2	9.6	8	4
CYPRUS AMAX MINERALS	739.0	1	3207.0	15	96.0	43	124.0	–25	13.0	9.2	4.6	23	1
FREEPORT-McMORAN	264.9	26	995.9	29	82.3	NM	92.4	NM	31.1	NM	NM	21	1
FREEPORT-McMORAN COPPER & GOLD	534.2	52	1834.3	51	67.9	23	253.6	95	12.7	15.7	47.4	32	0
PHELPS DODGE	1051.0	5	4185.4	27	190.0	199	746.6	176	18.1	6.4	27.9	6	10
17 NONBANK FINANCIAL													
INDUSTRY COMPOSITE	**91608.5**	**18**	**341220.2**	**17**	**7256.7**	**50**	**26388.8**	**40**	**7.9**	**6.2**	**14.3**	**13**	**3**
(A) FINANCIAL SERVICES													
GROUP COMPOSITE	**37979.6**	**17**	**137484.3**	**17**	**3281.8**	**45**	**12222.4**	**21**	**8.6**	**7.0**	**17.9**	**15**	**2**
ALEX. BROWN	246.7**	60	809.4	34	33.2	65	95.6	35	13.5	13.1	20.9	8	6
AMERICAN EXPRESS	4049.0**	7	15841.0	11	385.0	15	1564.0	13	9.5	8.8	21.4	15	1
AT&T CAPITAL	436.4	16	1577.0	14	42.1	4	127.6	27	9.6	10.8	11.4	16	7
BEAR STEARNS (6)	1190.1	44	4382.9	33	105.2	219	371.2	72	8.8	4.0	17.6	9	3
BLOCK (H&R) (8)	220.0	32	1446.1	12	–8.3	NM	108.4	–37	NM	NM	19.1	38	0
DEAN WITTER, DISCOVER	1432.2**	14	5675.9	13	178.1	27	856.4	16	12.4	11.1	18.1	11	4
EDWARDS (A. G.) (10)	361.9	25	1341.4	11	43.0	44	153.8	16	11.9	10.3	14.8	11	1
EQUIFAX	419.3	5	1623.0	14	44.4	22	147.7	23	10.6	9.1	38.8	21	0

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL.	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL.	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
ANNIE MAE	5877.0**	17	22246.2	20	408.9	–25	2155.6	1	7.0	10.8	19.7	18	1.96
EDERAL HOME LOAN MORTGAGE	2573.0	32	9480.0	37	291.0	15	1091.0	6	11.3	13.0	20.0	16	5.69
INOVA GROUP	218.1	34	781.6	53	26.5	13	97.6	31	12.1	14.3	11.8	15	3.51
RANKLIN RESOURCES (3)	226.6**	5	856.8	2	74.0	17	279.6	9	32.6	29.4	24.1	17	3.38
REEN TREE FINANCIAL	255.5	66	711.3	43	69.5	49	254.0	40	27.2	30.1	27.8	17	1.81
OUSEHOLD INTERNATIONAL	1244.6	4	5144.4	12	132.3	19	453.2	23	10.6	9.3	16.7	15	4.31
EHMAN BROTHERS HOLDINGS (1)	883.0**	25	3071.0	NA	68.0	48	242.0	NA	7.7	6.5	6.8	14	1.76
ARSH & McLENNAN	958.3	12	3770.3	10	85.0	18	402.9	5	8.9	8.4	24.0	17	5.53
ERRILL LYNCH	5293.0**	18	21513.0	18	303.0	87	1113.4	10	5.7	3.6	19.5	11	5.44
ORGAN STANLEY GROUP (1)	2704.0	16	NA	NA	187.0	379	NA	NA	6.9	1.7	NA	NA	NA
AINEWEBBER GROUP	1374.4**	32	5320.1	34	58.8	NM	80.8	155	4.3	NM	3.5	40	0.54
ALLIE MAE	983.1	10	3916.6	28	102.9	21	366.3	–11	10.5	9.5	41.0	15	5.27
ALOMON	2375.0**	55	8933.0	42	168.0	NM	457.0	NM	7.1	NM	10.5	11	3.64
CHWAB (CHARLES)	394.8**	46	1419.9	33	42.6	26	172.6	28	10.8	12.5	27.8	25	0.97
RAVELERS GROUP	4263.7**	–3	17623.6	–5	441.7	32	1631.9	24	10.4	7.6	14.9	13	4.88
B) INSURANCE													
ROUP COMPOSITE	**50289.0**	**20**	**190054.6**	**16**	**3703.2**	**59**	**12950.6**	**52**	**7.4**	**5.6**	**12.4**	**12**	**4.35**
ETNA LIFE & CASUALTY	3350.5**	8	12978.0	6	147.8	21	473.9	16	4.4	3.9	6.5	17	4.16
FLAC	1732.5	6	7190.6	18	83.3	8	349.1	19	4.8	4.7	16.9	13	3.50
LLSTATE	5850.0	10	22793.0	8	397.0	143	1903.5	293	6.8	3.1	16.4	11	4.24
MERICAN BANKERS INSURANCE GROUP	367.6	22	1360.9	15	22.7	10	72.3	28	6.2	6.8	15.0	11	3.48
MERICAN GENERAL	1677.0	48	6495.0	34	18.0	–49	564.0	10	1.1	3.1	9.4	14	2.64
ON	894.9	10	3465.7	14	64.5	–7	303.7	13	7.2	8.6	10.8	21	2.57
IGNA	4806.0**	2	18955.0	3	282.0	55	211.0	–62	5.9	3.9	3.3	41	2.86
NA FINANCIAL	3986.8	41	14699.7	34	181.2	89	757.0	NM	4.5	3.4	12.3	9	12.14
ONSECO†	789.2	49	2855.3	59	54.7	NM	222.5	44	6.9	0.4	28.2	7	9.49
QUITABLE	1967.4**	18	7273.5	13	85.7	2	350.2	8	4.4	5.0	10.4	14	1.75
RST COLONY	451.1	32	1658.4	21	42.4	282	151.4	42	9.4	3.2	11.7	9	3.00
REMONT GENERAL	233.2	41	923.8	41	18.7	32	68.0	22	8.0	8.6	15.0	10	2.61
ENERAL RE	2069.8	111	7210.2	88	228.8	14	824.9	24	11.1	20.3	12.4	15	9.92
T HARTFORD GROUP	3173.0	5	12150.0	9	141.0	–11	559.0	–12	4.4	5.2	11.6	11	4.77
FFERSON-PILOT	543.7	62	1569.4	24	86.9	35	255.3	11	16.0	19.2	12.7	15	3.55
NCOLN NATIONAL	1834.9**	11	6633.3	7	75.1	–20	482.2	38	4.1	5.6	10.7	12	4.63
EWS	5495.2**	63	18677.4	38	745.0	841	1765.7	559	13.6	2.3	24.3	6	14.98
HIO CASUALTY	365.3	–1	1462.5	–3	45.1	337	95.4	4	12.4	2.8	9.1	15	2.67
D REPUBLIC INTERNATIONAL	459.6	12	1695.8	1	70.6	64	212.5	41	15.4	10.5	13.6	10	3.63
UL REVERE	430.7	27	1534.0	14	20.8	44	85.3	–7	4.8	4.3	6.1	12	1.90
ROGRESSIVE	782.9	18	3011.9	25	66.4	–34	250.5	–9	8.5	15.2	18.5	15	3.26
ROVIDENT	597.0**	–16	2565.2	–8	35.4	17	115.6	–15	5.9	4.3	7.0	15	2.27
ROVIDIAN	877.2	16	3388.4	13	102.7	49	345.3	15	11.7	9.2	12.5	13	3.60
LIASTAR FINANCIAL	542.1	32	2090.4	33	43.8	47	169.1	57	8.1	7.3	13.3	11	4.36
FECO	954.9**	4	3869.0	4	116.2	21	399.0	27	12.2	10.4	11.1	12	3.17
PAUL	1446.6	23	5409.6	15	155.2	29	521.2	18	10.7	10.3	14.7	10	5.99
NAMERICA (3)	304.9**	30	1122.3	25	64.8	44	213.9	25	21.2	19.2	20.9	16	3.13
HOLDINGS	462.0**	0	1886.0	5	33.0	50	118.0	127	7.1	4.8	9.1	15	1.89
ANSAMERICA	1518.4	10	6101.1	14	109.4	–4	470.5	10	7.2	8.2	12.0	12	6.58
ITRIN	380.5	13	1447.4	6	37.8	–16	150.6	1	9.9	13.4	10.0	13	3.73
UM	1044.1	13	4122.9	14	62.1	15	281.1	82	5.9	5.8	13.4	15	3.87
F&G	900.0	3	3459.0	5	65.0	2	209.0	–12	7.2	7.3	12.1	10	1.63
) SAVINGS & LOAN													
ROUP COMPOSITE	**3340.0**	**8**	**13681.2**	**21**	**271.8**	**18**	**1215.8**	**325**	**8.1**	**7.4**	**10.2**	**11**	**2.54**
MANSON (H. F.)	954.6	–1	4397.5	31	60.7	52	450.9	90	6.4	4.1	13.0	7	3.39
L FED BANCORP	273.6	11	1071.5	–3	25.3	95	93.6	NM	9.2	5.3	11.3	11	1.36
ENDALE FEDERAL BANK (6)	257.5	–17	1185.2	4	–10.7	NM	56.2	NM	NM	3.5	–0.1	20	0.85
LDEN WEST FINANCIAL	651.5	29	2470.0	29	66.7	42	234.5	2	10.2	9.3	10.7	13	4.00
EAT WESTERN FINANCIAL	941.4	12	3566.4	19	98.6	11	261.0	4	10.5	10.6	8.9	14	1.72
ANDARD FEDERAL BANCORPORATION	261.5	18	990.7	19	31.2	3	119.5	0	11.9	13.7	13.0	11	3.70
OFFICE EQUIPMENT & COMPUTERS													
DUSTRY COMPOSITE	**86099.5**	**20**	**295518.6**	**20**	**4234.8**	**–6**	**16085.9**	**35**	**4.9**	**6.3**	**15.9**	**28**	**1.95**
BUSINESS MACHINES & SERVICES													
OUP COMPOSITE	**5927.3**	**14**	**21559.6**	**15**	**178.8**	**–20**	**786.2**	**–8**	**3.0**	**4.3**	**14.1**	**22**	**1.49**
MPUCOM SYSTEMS	419.5	16	1441.6	15	7.2	34	20.7	41	1.7	1.5	21.0	15	0.51
UXE	501.1	5	1858.0	6	–1.1	NM	94.4	–35	NM	8.5	11.5	26	1.15
BOLD	243.5	18	863.4	14	21.5	20	76.2	20	8.8	8.7	15.5	23	2.50
HEAD (9)	216.4	–15	802.3	–6	–0.9	NM	–6.7	NM	NM	1.5	–4.7	NM	–0.39
N INDUSTRIES	241.8	5	893.1	6	8.6	–52	41.1	–24	3.5	7.8	19.7	16	1.35
ELLIGENT ELECTRONICS (11)	944.2	14	3474.6	11	–13.5	NM	–19.0	NM	NM	NM	–10.4	NM	–0.59
ROADE (2)	764.2	20	2941.1	32	–5.7	NM	0.2	–99	NM	0.6	0.1	NM	0.02
LER (HERMAN) (7)	328.4	18	1180.6	16	5.0	243	11.9	–62	1.5	0.5	3.9	69	0.48
NEY BOWES	977.1	9	3554.8	9	112.6	19	407.7	17	11.5	10.5	19.7	18	2.68
NOLDS & REYNOLDS (3)	233.4	12	935.6	13	21.4	13	81.1	15	9.2	9.1	24.4	20	1.91
H DATA (11)	843.3	28	2845.5	29	7.0	–32	18.1	–52	0.8	1.6	6.6	31	0.47
LLACE COMPUTER SERVICES (5)	214.4	35	768.9	28	16.8	44	60.4	26	7.8	7.4	12.9	21	2.68

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	**63307.1**	**18**	**215071.1**	**18**	**2606.5**	**–11**	**10130.9**	**61**	**4.1**	**5.4**	**15.3**	**20**	**2.71**
AMDAHL	416.2	–17	1516.4	7	–38.4	NM	28.5	–62	NM	8.2	2.9	34	0.24
APPLE COMPUTER (3)	3148.0	11	11378.0	19	–69.0	NM	167.0	–64	NM	6.6	6.0	21	1.35
AST RESEARCH (6)	612.9	4	2348.5	2	–128.6	NM	–263.2	NM	NM	NM	–64.5	NM	–6.45
COMPAQ COMPUTER	4701.0	45	14755.0	36	82.0	–66	789.0	–9	1.7	7.5	17.8	18	2.88
CONNER PERIPHERALS	776.7	31	2716.6	15	25.3	–43	55.5	–49	3.3	7.5	14.5	NA	1.03
CRAY RESEARCH	236.3	0	676.2	-27	–25.6	NM	–226.4	NM	NM	4.0	–37.6	NM	–8.95
DATA GENERAL (3)	327.6	16	1204.7	6	4.7	–81	–66.2	NM	1.4	8.6	–23.7	NM	–1.79
DELL COMPUTER (11)	1415.7	60	4789.9	50	75.4	82	262.5	146	5.3	4.7	27.8	12	2.66
DIGITAL EQUIPMENT (6)	3951.4	14	14439.8	5	148.8	688	430.5	NM	3.8	0.5	11.0	29	2.62
EMC	519.1	21	1921.3	39	62.1	–20	326.8	30	12.0	18.1	32.4	13	1.36
GATEWAY 2000	1245.2	51	3676.3	36	58.8	50	173.0	80	4.7	4.8	31.1	13	2.19
HEWLETT-PACKARD (2)	9048.0	29	31519.0	26	678.0	42	2433.0	52	7.5	6.8	20.6	19	4.63
INTERNATIONAL BUSINESS MACHINES	21920.0	10	71940.0	12	1711.0	39	4178.0	38	7.8	6.2	19.2	16	7.23
MAXTOR (9)	356.7	50	1230.0	38	–24.6	NM	–81.8	NM	NM	NM	NM	NA	–1.55
MICRON ELECTRONICS (4)	438.6	227	1304.2	177	16.6	43	70.1	70	3.8	8.6	36.7	17	0.78
QUANTUM (9)	1215.9	30	4174.0	38	–2.5	NM	55.5	–43	NM	NM	8.5	17	1.08
SEAGATE TECHNOLOGY (6)	1563.0	38	5493.4	38	127.7	61	394.0	59	8.2	7.0	23.6	11	5.29
SILICON GRAPHICS (6)	671.7	22	2497.2	38	52.4	–11	231.4	25	7.8	10.7	16.2	21	1.30
STORAGE TECHNOLOGY	559.0	–4	1929.5	3	–138.3	NM	–142.3	NM	NM	2.5	–16.0	NM	–2.91
SUN MICROSYSTEMS (6)	1751.4	19	6389.8	20	126.0	54	446.5	75	7.2	5.5	25.1	21	2.25
TANDEM COMPUTERS (3)	512.4	–4	2262.8	4	2.0	–94	74.3	–59	0.4	6.6	6.7	16	0.63
3COM (7)	563.5	50	1664.7	45	16.3	77	157.6	NM	2.9	2.5	21.1	48	1.06
UNISYS	1838.7	5	6202.3	4	–667.0	NM	–627.3	NM	NM	NM	–71.4	NM	–4.37
WESTERN DIGITAL (6)	758.0	37	2430.5	28	36.4	–14	90.8	–37	4.8	7.7	19.7	11	1.83
XEROX	4760.0**	4	16611.0	10	477.0	53	1174.0	48	10.0	6.8	21.6	13	10.20
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	**16865.1**	**31**	**58888.0**	**29**	**1449.5**	**5**	**5168.8**	**8**	**8.6**	**10.7**	**17.6**	**45**	**1.30**
AMERICA ONLINE (6)	249.1	226	707.9	245	10.6	NM	3.9	NM	4.3	NM	1.0	NM	0.05
AUTOMATIC DATA PROCESSING (6)	819.7**	22	3165.7	20	108.9	15	422.0	18	13.3	14.1	19.8	29	1.41
BAY NETWORKS (6)	541.6	65	1727.9	44	58.8	NM	218.3	116	10.9	NM	26.7	42	1.14
CABLETRON SYSTEMS (10)	275.5	31	999.5	33	55.9	34	202.5	35	20.3	19.9	26.7	28	2.83
CERIDIAN	361.5	20	1333.0	13	–0.8	NM	97.5	0	NM	7.7	33.0	38	1.21
CISCO SYSTEMS (5)	710.2	81	2296.2	66	168.7	71	491.0	40	23.8	25.1	30.1	52	1.74
COMDISCO (3)	530.0**	1	2246.0	8	27.0	8	106.0	93	5.1	4.8	14.3	12	1.71
COMPUSA (6)	931.2	22	3135.5	24	17.4	80	39.8	NM	1.9	1.3	15.7	18	1.91
COMPUTER ASSOCIATES INTERNATIONAL (9)	1004.4	39	3196.2	30	227.2	30	–108.6	NM	22.6	24.2	–8.9	NM	–0.41
COMPUTER SCIENCES (9)	1110.4	34	4099.9	33	36.0	35	133.3	28	3.2	3.2	11.0	33	2.31
ELECTRONIC ARTS (9)	239.7	10	521.5	6	29.3	19	45.7	–16	12.2	11.2	15.9	29	0.81
ELECTRONIC DATA SYSTEMS	3622.0	24	12422.1	25	269.5	14	938.9	14	7.4	8.1	19.7	29	1.91
FIRST DATA	1119.1	27	4081.2	35	–389.7	NM	–84.2	NM	NM	13.4	–21.5	NM	–0.3
INFORMIX	217.1	45	709.0	51	38.8	63	105.3	59	17.9	15.9	24.9	42	0.7
INTERGRAPH	301.3	2	1098.0	5	7.1	NM	–45.3	NM	2.4	NM	–9.3	NM	–0.9
LEXMARK INTERNATIONAL GROUP	630.0	21	2158.0	17	1.0	–96	48.0	7	0.2	5.0	14.8	35	0.6
MICROSOFT (6)	2195.0	48	7419.0	41	575.0	54	1838.0	41	26.2	25.2	32.0	35	2.8
NOVELL (2)	480.5	–1	2041.2	2	59.0	189	338.3	64	12.3	4.2	17.5	16	0.9
ORACLE (7)	967.2	44	3479.1	46	136.9	46	477.1	41	14.2	14.0	32.6	45	1.0
SYBASE	267.3	5	956.6	16	6.0	–82	–19.5	NM	2.2	12.8	–4.4	NM	–0.2
WANG LABORATORIES (6)	292.5	35	1094.7	33	6.9	60	–79.3	NM	2.4	2.0	–45.9	NM	–2.7
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	**25922.7**	**11**	**104059.9**	**21**	**785.8**	**–31**	**6252.8**	**108**	**3.0**	**4.9**	**17.7**	**13**	**3.7**
(A) FOREST PRODUCTS													
GROUP COMPOSITE	**6599.4**	**5**	**27343.5**	**14**	**458.7**	**22**	**1975.3**	**130**	**7.0**	**6.0**	**22.0**	**8**	**5.7**
BOISE CASCADE	1242.0	12	5074.2	23	70.4	172	351.9	NM	5.7	2.3	25.0	6	5.1
GEORGIA-PACIFIC	3410.0	2	14292.0	12	197.0	17	1018.0	212	5.8	5.1	29.6	6	11.1
LOUISIANA-PACIFIC	670.3	10	2843.2	–6	26.8	–68	–51.7	NM	4.0	11.3	–3.1	NM	–0.1
RAYONIER	327.2	19	1260.5	18	33.8	90	142.3	103	10.3	6.5	19.2	8	4
WILLAMETTE INDUSTRIES	950.0	16	3873.6	29	130.7	69	514.8	190	13.8	9.4	29.7	6	9
(B) PAPER													
GROUP COMPOSITE	**19323.3**	**14**	**76716.4**	**23**	**327.1**	**–57**	**4277.5**	**99**	**1.7**	**4.5**	**16.2**	**15**	**3.**
BOWATER	543.9	42	2001.1	47	95.3	354	258.2	NM	17.5	5.5	26.8	7	5.
CHAMPION INTERNATIONAL	1740.9	19	6972.0	31	217.5	113	771.8	NM	12.5	7.0	21.7	6	8
CHESAPEAKE	296.7	8	1233.7	25	24.2	48	93.4	148	8.2	5.9	20.7	7	3
CONSOLIDATED PAPERS	452.7	57	1579.1	54	73.1	155	229.2	164	16.1	9.9	20.8	10	5
CROWN VANTAGE	277.8	17	1076.5	23	9.9	262	45.3	NM	3.6	1.2	107.8	NA	
FORT HOWARD	415.3	21	1620.9	27	20.9	NM	33.5	NM	5.0	NM	NM	37	0
INTERNATIONAL PAPER	5100.0	24	19800.0	32	263.0	71	1153.0	167	5.2	3.8	15.2	9	4
JAMES RIVER CORP. OF VIRGINIA	1579.3	–5	6799.5	26	21.6	NM	126.4	NM	1.4	NM	4.5	35	0
KIMBERLY-CLARK	3442.9	9	13788.6	15	–841.7	NM	33.2	–96	NM	7.1	1.2	NM	0
MEAD	1144.0	–3	5179.4	14	74.1	NM	342.5	282	6.5	NM	15.9	9	6
POTLATCH	402.2	4	1605.2	9	29.4	9	108.5	122	7.3	6.9	11.3	11	3
WESTVACO (2)	871.6	14	3272.4	26	88.9	73	283.4	174	10.2	6.7	13.6	10	2
WEYERHAEUSER	3056.0	12	11788.0	13	251.0	33	799.0	36	8.2	6.9	17.9	12	3

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CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
20 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	**15121.6**	**6**	**53636.0**	**9**	**621.5**	**–41**	**2352.5**	**–23**	**4.1**	**7.4**	**10.2**	**49**	**1.08**
(A) BROADCASTING													
GROUP COMPOSITE	**3269.9**	**7**	**11394.0**	**14**	**173.9**	**33**	**513.9**	**25**	**5.3**	**4.3**	**17.8**	**58**	**1.09**
CABLEVISION SYSTEMS	290.8	18	1078.1	29	–80.3	NM	–317.5	NM	NM	NM	NM	NM	–14.17
CAPITAL CITIES/ABC	2056.5	4	6878.6	8	235.0	–2	728.6	7	11.4	12.2	15.4	27	4.73
TURNER BROADCASTING SYSTEM	922.6	12	3437.4	22	19.2	–27	102.7	122	2.1	3.2	63.4	78	0.36
(B) PUBLISHING													
GROUP COMPOSITE	**11851.7**	**6**	**42242.0**	**7**	**447.6**	**–51**	**1838.6**	**–30**	**3.8**	**8.2**	**9.0**	**46**	**1.08**
DOW JONES	612.1	8	2283.8	9	60.0	3	189.6	5	9.8	10.3	12.2	20	1.96
DUN & BRADSTREET	1554.6	10	5415.1	11	–105.7	NM	320.8	–49	NM	14.9	22.9	35	1.89
GANNETT	1146.7	9	4006.7	5	155.5	4	477.3	3	13.6	14.2	23.6	20	3.41
K-III COMMUNICATIONS	284.8	3	1046.3	8	38.8	82	–75.5	NM	13.6	7.7	NM	NM	-0.91
KNIGHT-RIDDER	751.8	5	2751.8	4	31.0	–42	167.4	–2	4.1	7.4	15.4	20	3.34
McGRAW-HILL	749.6	8	2935.3	6	54.5	9	227.1	12	7.3	7.2	24.9	20	4.55
MEREDITH (6)	217.2	8	894.4	12	16.1	53	45.8	31	7.4	5.2	18.4	29	1.64
NEW YORK TIMES	655.1	8	2409.4	2	33.0	–19	135.9	–36	5.0	6.7	8.8	20	1.40
READER'S DIGEST ASSOCIATION (6)	918.6	7	3151.2	7	94.8	–10	240.3	15	10.3	12.3	39.1	22	2.19
SCHOLASTIC (7)	294.6	16	838.6	23	31.1	14	43.8	31	10.6	10.8	15.9	27	2.70
SCRIPPS (E. W.)	281.1	7	1030.1	7	29.4	272	93.6	1	10.4	3.0	8.1	37	1.17
TIME WARNER	2362.0	3	8067.0	9	33.0	175	–124.0	NM	1.4	0.5	–4.8	NM	-0.46
TIMES MIRROR	966.7	1	3448.3	3	–141.6	NM	–339.0	NM	NM	5.4	–28.0	NM	–3.74
TRIBUNE	593.8	3	2244.7	6	64.9	–6	245.5	5	10.9	11.9	17.9	19	3.50
WASHINGTON POST	463.0	3	1719.4	7	52.9	1	190.1	12	11.4	11.6	16.8	17	17.15
21 SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	**28371.0**	**13**	**105254.5**	**16**	**1077.0**	**12**	**4244.9**	**21**	**3.8**	**3.9**	**14.8**	**20**	**1.67**
(A) CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	**4188.4**	**12**	**15194.2**	**14**	**102.9**	**28**	**375.6**	**93**	**2.5**	**2.2**	**14.6**	**22**	**1.9**
APOGEE ENTERPRISES (10)	215.5	16	862.1	18	5.2	37	16.7	117	2.4	2.0	12.6	15	1.2
BUTLER MFG.	218.3	4	826.5	19	6.0	18	23.4	53	2.7	2.4	24.4	11	3.0
EG&G	377.5	11	1419.6	7	18.9	135	54.3	NM	5.0	2.4	15.1	22	1.0
FLUOR (2)	2575.6	8	9301.4	10	66.0	26	231.8	20	2.6	2.2	17.0	23	2.7
JACOBS ENGINEERING GROUP (3)	471.1	14	1781.8	35	9.6	31	34.5	84	2.0	1.8	14.4	20	1.3
STONE & WEBSTER	330.4**	61	1002.8	29	–2.8	NM	14.9	NM	NM	1.9	3.9	34	1.0
(B) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	**9350.5**	**11**	**34670.0**	**14**	**365.9**	**73**	**1380.1**	**38**	**3.9**	**2.6**	**15.6**	**19**	**1.9**
AIRGAS (9)	208.5	20	791.3	23	9.8	26	38.0	34	4.7	4.5	18.3	31	1.1
AVNET (6)	1301.6	25	4797.5	26	46.7	50	171.5	50	3.6	3.0	12.0	11	3.9
BEARINGS (6)	271.9	9	1102.7	12	5.0	50	19.9	39	1.8	1.3	11.5	16	1.7
BOISE CASCADE OFFICE PRODUCTS	374.9	45	1316.0	45	14.8	148	43.2	63	3.9	2.3	13.3	38	1.4
BT OFFICE PRODUCTS INTERNATIONAL	309.9	28	1132.4	43	4.7	NM	11.2	624	1.5	0.1	4.3	43	0.4
CELLSTAR (1)	245.0	38	811.9	57	7.6	43	24.1	48	3.1	3.0	22.7	18	1.2
CRANE	444.9	1	1782.3	8	20.9	24	76.3	36	4.7	3.8	20.4	17	2.5
ENRON	2549.9	–1	9189.0	2	130.2	20	519.8	15	5.1	4.2	17.0	19	2.0
GETTY PETROLEUM (11)	212.0	9	795.1	9	4.0	34	14.5	94	1.9	1.5	13.7	12	1.
GRAINGER (W. W.)	806.6	5	3276.9	8	51.2	NM	186.7	46	6.3	0.1	16.4	19	3.6
HUGHES SUPPLY (11)	279.0	25	1010.9	25	4.0	39	14.6	49	1.4	1.3	9.8	13	2.
KAMAN	241.5**	13	899.5	10	4.8	NM	19.6	NM	2.0	NM	10.3	12	0.
MARSHALL INDUSTRIES (7)	295.5	21	1113.8	25	13.6	45	48.1	37	4.6	3.9	15.7	11	2.
PIONEER-STANDARD ELECTRONICS (9)	263.9	24	965.0	29	4.1	–33	24.9	7	1.6	2.9	17.4	13	1.
PREMIER INDUSTRIAL (7)	216.9	8	849.3	9	29.0	7	112.7	12	13.4	13.5	24.1	23	1.
UNITED STATIONERS	549.4	NA	1751.5	NA	4.8	NA	6.2	NA	0.9	NA	14.1	69	0.
UNIVAR (10)	479.8	2	2007.5	7	0.0	–97	12.5	NM	0.0	0.2	6.7	19	0.
WYLE ELECTRONICS	299.0	33	1077.5	36	10.6	95	36.2	159	3.5	2.4	19.5	12	2
(C) POLLUTION CONTROL													
GROUP COMPOSITE	**3978.3**	**5**	**16165.0**	**14**	**193.0**	**–35**	**1032.6**	**–5**	**4.9**	**7.8**	**13.3**	**19**	**1.**
BROWNING-FERRIS INDUSTRIES (3)	1430.8	11	5917.3	26	83.0	–7	378.0	20	5.8	6.9	13.8	15	1
WMX TECHNOLOGIES	2547.5	2	10247.6	7	110.0	–46	654.6	–16	4.3	8.2	13.2	21	1
(D) PRINTING & ADVERTISING													
GROUP COMPOSITE	**2907.5**	**33**	**9835.4**	**30**	**102.9**	**–12**	**390.0**	**6**	**3.5**	**5.4**	**13.1**	**19**	**1.**
ADVO (3)	256.5	3	1005.4	9	7.0	–31	27.7	1	2.7	4.1	21.3	18	1
BANTA	305.1	32	1022.7	26	14.3	16	53.6	13	4.7	5.4	14.7	16	2
DONNELLEY (R. R.) & SONS	1998.3	37	6511.8	33	95.4	9	298.8	11	4.8	6.0	14.1	19	1
WORLD COLOR PRESS	347.6	38	1295.6	33	–13.9	NM	9.9	–58	NM	3.0	2.8	71	0
(E) OTHER SERVICES													
GROUP COMPOSITE	**7946.3**	**15**	**29390.0**	**16**	**312.4**	**23**	**1066.7**	**25**	**3.9**	**3.7**	**16.5**	**23**	**1**
ABM INDUSTRIES (2)	253.1**	9	965.4	9	5.9	21	18.2	20	2.3	2.1	13.0	15	1
BORG-WARNER SECURITY	466.3	2	1862.5	4	2.8	211	5.9	–55	0.6	0.2	12.2	44	0
CUC INTERNATIONAL (11)	341.4**	29	1261.6	26	40.8	35	148.2	35	11.9	11.5	23.7	48	0
HANDLEMAN (8)	295.2	–15	1192.4	7	3.4	–78	8.5	–73	1.1	4.5	2.8	24	0
INACOM	656.2	23	2200.3	22	4.4	78	11.7	NM	0.7	0.5	7.9	14	

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CORPORATE SCOREBOARD

COMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL.	CHANGE FROM 1994 %	4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	4TH QUARTER 1995 %	4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
INTERIM SERVICES	223.4	21	780.9	23	5.5	24	17.5	24	2.5	2.4	8.9	25	1.50
KELLY SERVICES	718.2	14	2689.8	14	20.2	11	69.5	14	2.8	2.9	15.0	16	1.83
MANPOWER	1392.5	11	5484.2	28	36.6	36	128.0	53	2.6	2.1	39.6	19	1.65
NORRELL (2)	227.6	22	812.6	19	4.6	13	16.8	11	2.0	2.2	25.5	18	1.44
OLSTEN	663.4**	12	2518.9	9	26.2	21	90.5	27	4.0	3.6	20.1	23	2.08
PHH (8)	589.8	16	2211.8	6	19.6	11	75.4	11	3.3	3.5	13.1	12	4.36
PITTSTON BRINK'S GROUP	214.4	19	788.4	20	15.0	15	51.1	23	7.0	7.2	5.8	18	1.35
SAFETY-KLEEN	264.0	6	859.3	9	18.0	8	53.3	6	6.8	6.7	12.7	16	0.92
SERVICE CORP. INTERNATIONAL	546.9	73	1652.1	48	56.4	62	183.6	40	10.3	11.0	13.4	25	1.80
SERVICEMASTER	787.6	7	3202.5	7	45.2	23	172.0	23	5.7	5.0	23.0	15	2.17
VOLT INFORMATION SCIENCES (2)	306.4**	22	907.4	24	7.9	33	16.4	36	2.6	2.4	16.6	14	1.70
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	62177.7	6	233032.4	6	837.5	–84	16074.3	–17	1.3	8.7	16.0	27	1.81
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	31700.6	9	115301.3	9	–2029.2	NM	2269.8	–67	NM	6.1	5.4	75	0.65
AIRTOUCH COMMUNICATIONS†	420.8	23	1590.3	29	11.2	261	131.9	34	2.7	0.9	3.5	NM	0.27
AT&T	22131.0	5	79609.0	6	–2676.0	NM	139.0	–97	NM	6.3	0.7	NM	0.09
DSC COMMUNICATIONS	373.9	20	1422.0	42	49.4	–8	192.7	18	13.2	17.2	18.8	20	1.63
LCI INTERNATIONAL	203.6	56	672.9	45	16.2	NM	50.8	647	7.9	NM	21.2	40	0.63
MCI COMMUNICATIONS	4137.0	22	15265.0	14	284.0	88	548.0	–31	6.9	4.4	5.7	36	0.80
SCIENTIFIC-ATLANTA (6)	261.1	–3	1140.1	19	6.6	–57	47.1	-21	2.5	5.7	10.1	27	0.62
SPRINT	3552.5	10	13556.0	8	222.1	8	960.6	9	6.3	6.4	20.6	16	2.73
TELEPHONE & DATA SYSTEMS†	255.8	25	954.4	31	15.6	–15	104.0	72	6.1	9.0	6.1	25	1.74
U. S. ROBOTICS (3)	364.8	125	1091.7	97	41.6	251	95.7	149	11.4	7.3	19.9	47	2.12
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	30477.1	3	117731.0	3	2866.8	–14	13804.5	9	9.4	11.3	23.7	19	2.57
ALLTEL	773.9	2	3109.7	6	92.6	111	354.6	31	12.0	5.8	19.1	19	1.86
AMERITECH	3531.8	11	13427.8	7	412.7	–4	2007.6	72	11.7	13.5	28.6	18	3.63
BELL ATLANTIC	3154.2	–10	13429.5	–3	395.4	26	1861.8	33	12.5	9.0	28.1	17	4.29
BELLSOUTH	4765.0	8	17886.2	6	–99.0	NM	1563.5	–28	NM	12.7	13.2	28	1.57
CINCINNATI BELL	343.2	6	1336.1	9	–21.5	NM	–25.3	NM	NM	6.5	-4.9	NM	-0.38
FRONTIER	606.3	41	2143.7	29	58.5	25	144.8	–23	9.6	10.9	16.9	37	0.89
GTE	5364.0	4	19957.0	2	719.0	4	2538.0	4	13.4	13.4	22.8	19	2.62
NYNEX	3304.3	–3	13406.9	1	235.6	19	1069.5	35	7.1	5.8	17.9	23	2.50
PACIFIC TELESIS GROUP	2282.0	–3	9042.0	-2	231.0	–12	1048.0	–8	10.1	11.1	47.9	13	2.40
SBC COMMUNICATIONS	3442.5	6	12669.7	8	517.8	22	1889.3	15	15.0	13.1	30.8	19	3.10
SOUTHERN NEW ENGLAND TELECOMMS.	470.9**	8	1838.5	7	40.7	–2	168.8	–5	8.6	9.5	16.6	17	2.66
US WEST COMMUNICATIONS GROUP	2439.0	5	9484.0	3	284.0	–5	1184.0	3	11.6	12.9	37.1	15	2.5
23 TRANSPORTATION													
INDUSTRY COMPOSITE	38190.2	8	148765.3	8	562.7	39	5346.9	68	1.5	1.1	12.5	18	2.6
(A) AIRLINES													
GROUP COMPOSITE	17764.0	6	72328.0	6	–61.5	NM	2028.1	NM	NM	NM	27.6	13	3.3
ALASKA AIR GROUP	341.1	7	1417.5	8	–0.7	NM	17.3	–23	NM	NM	8.1	16	1.2
AMERICA WEST AIRLINES	396.3	16	1550.6	NA	6.0	–10	54.8	NA	1.5	1.9	8.5	15	1.1
AMR	4188.0	5	16910.0	5	–269.0	NM	196.0	–14	NM	NM	5.1	32	2.4
CONTINENTAL AIRLINES	1423.0	1	5825.0	3	43.0	NM	226.0	NM	3.0	NM	83.1	7	7.2
DELTA AIR LINES (6)	2944.0	1	12250.0	2	70.0	NM	511.0	NM	2.4	NM	20.9	9	8.2
NORTHWEST AIRLINES	2201.5	9	9084.9	9	3.6	–90	342.1	16	0.2	1.8	NM	13	3.6
SOUTHWEST AIRLINES	748.6	20	2872.8	11	43.4	113	182.6	2	5.8	3.2	13.2	22	1.2
UAL	3667.0	7	14943.0	7	–18.0	NM	379.0	392	NM	0.3	NM	7	21.8
USAIR GROUP	1854.5	10	7474.3	7	60.3	NM	119.3	NM	3.2	NM	NM	29	0.5
(B) RAILROADS													
GROUP COMPOSITE	9726.6	15	35678.3	10	444.8	–56	2408.3	–17	4.6	11.9	10.0	22	2.6
BURLINGTON NORTHERN SANTA FE	2092.0	56	6183.0	24	–160.0	NM	198.0	–54	NM	10.6	3.5	51	1.6
CONRAIL	951.0	4	3686.0	–1	–30.0	NM	264.0	–19	NM	15.1	7.8	23	3.
CSX	2771.0	9	10504.0	9	276.0	15	618.0	–5	10.0	9.4	14.6	16	2.
NORFOLK SOUTHERN	1155.2**	–1	4668.0	2	176.9	0	712.7	7	15.3	15.0	14.8	15	5
SOUTHERN PACIFIC RAIL	783.4	0	3151.3	0	2.9	–98	–3.4	NM	0.4	19.3	–0.3	NM	-0.
UNION PACIFIC	1974.0	19	7486.0	15	179.0	21	619.0	9	9.1	8.9	11.2	23	3
(C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	5417.0	8	20916.5	11	205.1	12	704.8	13	3.8	3.6	12.7	14	3.
AIRBORNE FREIGHT	602.9	14	2239.4	14	12.0	13	23.8	–39	2.0	2.0	6.0	23	1
FEDERAL EXPRESS (7)	2547.0	8	9802.6	10	89.9	4	315.5	22	3.5	3.7	13.0	14	5
GATX	319.3**	3	1233.4	7	18.7	–26	100.8	10	5.9	8.1	12.4	11	4
RYDER SYSTEM	1345.4	8	5167.4	10	56.4	49	155.4	1	4.2	3.1	13.0	14	1
TRINITY INDUSTRIES (9)	602.3	4	2473.7	16	28.1	24	109.2	39	4.7	3.9	15.6	13	2
(D) TRUCKING & SHIPPING													
GROUP COMPOSITE	5282.6	3	19842.4	9	–25.6	NM	205.7	–50	NM	2.7	4.4	33	0.
ALEXANDER & BALDWIN	258.2**	–25	1020.5	–11	12.6	–36	32.4	–49	4.9	5.7	5.0	32	0
AMERICAN PRESIDENT	771.3**	1	2897.4	4	–15.9	NM	30.3	–59	NM	2.9	5.2	23	0
ARKANSAS BEST	415.4	26	1437.3	31	–26.5	NM	–32.8	NM	NM	2.2	–17.9	NM	1

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CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL.	CHANGE FROM 1994 %	12 MONTHS 1995 $ MIL	CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS' EARNINGS PER SHARE
CALIBER SYSTEM	801.2	4	2448.2	3	26.3	–4	92.4	–6	3.3	3.6	9.4	18	2.34
CONSOLIDATED FREIGHTWAYS	1341.6	5	5281.1	13	–4.5	NM	57.4	–5	NM	1.5	6.7	24	1.10
HUNT (J. B.) TRANSPORT SERVICES	358.5	8	1352.2	12	–6.8	NM	–2.2	NM	NM	3.3	–0.6	NM	–0.06
LANDSTAR SYSTEM	302.1	8	1204.7	22	5.2	–29	25.0	2	1.7	2.6	20.3	12	1.95
TNT FREIGHTWAYS	288.4	6	1144.5	13	6.7	–36	33.3	0	2.3	3.8	14.6	13	1.51
YELLOW	745.9	–2	3056.6	7	–22.7	NM	–30.1	NM	NM	1.5	–6.8	NM	–1.07
24 UTILITIES & POWER													
INDUSTRY COMPOSITE	**53657.3**	**11**	**208676.0**	**4**	**3435.4**	**–2**	**20622.6**	**10**	**6.4**	**7.2**	**11.5**	**14**	**2.08**
(A) ELECTRIC, WATER & COGENERATION													
GROUP COMPOSITE	**43340.3**	**8**	**174194.1**	**3**	**3447.8**	**17**	**19082.7**	**12**	**8.0**	**7.4**	**12.0**	**13**	**2.19**
ALLEGHENY POWER SYSTEM	672.7	12	2647.8	8	64.9	8	254.9	6	9.7	10.0	11.4	15	2.00
AMERICAN ELECTRIC POWER	1425.0	11	5669.9	3	145.7	24	586.6	6	10.2	9.2	12.3	15	2.85
ATLANTIC ENERGY	225.6	11	953.1	4	14.8	NM	96.9	4	6.6	NM	9.9	13	1.55
BALTIMORE GAS & ELECTRIC	725.7	19	2934.8	5	52.9	10	338.0	4	7.3	7.9	10.6	14	2.02
BOSTON EDISON	362.7	3	1628.5	5	–6.4	NM	112.3	–10	NM	3.1	9.5	14	2.08
CAROLINA POWER & LIGHT	720.9	13	3006.6	5	66.7	45	372.6	19	9.3	7.2	14.1	15	2.48
CENTERIOR ENERGY	581.4	2	2515.5	4	44.4	–13	281.5	5	7.6	8.9	11.3	6	1.49
CENTRAL & SOUTH WEST	1064.0	35	3730.0	3	67.0	–1	421.0	2	6.3	8.6	12.6	13	2.10
CENTRAL MAINE POWER	232.2	7	916.0	1	9.8	NM	38.0	NM	4.2	NM	5.7	18	0.86
CINERGY	786.0	13	3031.4	5	83.4	NM	378.0	67	10.6	NM	13.7	14	2.22
CIPSCO	204.0	2	842.3	0	5.8	–67	75.9	–13	2.8	8.7	10.8	19	2.11
CMS ENERGY	1069.0	17	3890.0	8	45.0	18	232.0	14	4.2	4.2	14.2	14	2.27
COMMONWEALTH ENERGY SYSTEM	247.2	8	927.4	–5	16.9	53	51.4	5	6.8	4.8	13.2	10	4.72
CONSOLIDATED EDISON CO. OF N. Y.	1528.4	5	6536.9	3	113.1	–4	723.9	–1	7.4	8.1	12.4	12	2.93
DELMARVA POWER & LIGHT	241.2	10	995.1	0	19.9	8	117.5	8	8.3	8.4	11.7	13	1.79
DOMINION RESOURCES	1134.6	13	4651.7	4	52.0	3	471.4	–9	4.6	5.0	8.9	18	2.45
DPL	337.5	13	1271.0	6	30.0	7	165.5	4	8.9	9.3	14.5	16	1.63
DQE	280.4	0	1220.2	0	40.2	2	176.9	9	14.3	14.1	12.9	14	2.20
DTE ENERGY	867.0	8	3635.5	3	80.8	–15	433.8	3	9.3	11.9	11.8	13	2.80
DUKE POWER	1133.2	10	4676.7	4	90.5	–3	714.5	12	8.0	9.0	13.8	16	3.25
EDISON INTERNATIONAL	2030.0	–1	8382.9	0	150.1	4	786.0	9	7.4	7.1	11.6	11	1.66
ENOVA	468.8	–7	1870.7	–2	54.3	–8	233.3	13	11.6	11.8	15.0	12	1.94
FLORIDA PROGRESS	746.9	9	3055.6	10	48.4	0	248.6	12	6.5	7.1	11.6	14	2.50
FPL GROUP	1361.4	6	5592.5	3	84.6	–2	592.8	6	6.2	6.7	12.6	15	3.16
GENERAL PUBLIC UTILITIES	931.0	10	3804.7	4	80.8	27	481.9	151	8.7	7.5	15.2	9	3.79
HAWAIIAN ELECTRIC INDUSTRIES	332.9	4	1295.9	9	17.3	–24	84.4	5	5.2	7.1	10.8	15	2.66
HOUSTON INDUSTRIES	784.1	2	3680.3	–2	29.6	105	445.8	–3	3.8	1.9	9.9	15	1.68
IES INDUSTRIES	216.7	11	851.0	8	14.0	8	65.1	–4	6.5	6.7	10.5	13	2.2[illegible]
ILLINOVA	385.5	5	1641.4	3	8.8	–71	176.2	0	2.3	8.2	9.8	15	1.9[illegible]
KANSAS CITY POWER & LIGHT	204.1	6	886.0	2	23.3	17	122.6	17	11.4	10.4	13.2	14	1.9[illegible]
LG&E ENERGY	535.7	182	1403.0	69	0.9	–95	89.1	42	0.2	10.1	10.4	17	2.5[illegible]
LONG ISLAND LIGHTING	754.3	15	3075.1	0	60.4	57	303.3	0	8.0	5.9	10.2	8	2.1[illegible]
MIDAMERICAN ENERGY	393.8	7	1554.2	3	28.7	30	130.4	–4	7.3	6.0	9.9	15	1.2[illegible]
MONTANA POWER	268.2	–7	953.5	–5	–1.1	NM	56.9	–50	NM	15.7	5.2	24	0.9[illegible]
NEW ENGLAND ELECTRIC SYSTEM	580.7	4	2271.7	1	51.9	30	213.4	3	8.9	7.2	12.6	13	3.1[illegible]
NEW YORK STATE ELECTRIC & GAS	533.0	4	2009.5	6	53.0	–11	196.7	5	9.9	11.6	10.3	10	2.4[illegible]
NIAGARA MOHAWK POWER	966.5	–5	3917.3	–6	27.9	NM	248.0	40	2.9	NM	8.2	6	1.4[illegible]
NIPSCO INDUSTRIES	469.0	10	1722.3	3	54.1	6	184.5	6	11.5	12.0	15.4	14	2.7[illegible]
NORTHEAST UTILITIES	978.9	9	3749.0	3	72.6	–4	321.8	–2	7.4	8.4	11.7	10	2.2[illegible]
NORTHERN STATES POWER	652.8	7	2568.6	3	59.0	21	275.8	13	9.0	8.0	13.0	13	3.9[illegible]
OHIO EDISON	617.3	9	2465.8	4	79.1	6	324.4	5	12.8	13.1	12.3	12	2.0[illegible]
OKLAHOMA GAS & ELECTRIC	283.9	1	1302.0	–4	4.9	–1	125.3	1	1.7	1.8	13.1	14	3.0[illegible]
ORANGE & ROCKLAND UTILITIES	241.0	–7	1030.1	1	4.7	40	38.6	4	2.0	1.3	9.2	14	2.6[illegible]
PACIFIC GAS & ELECTRIC	2221.5	–13	9621.8	–7	227.1	119	1338.9	33	10.2	4.1	14.6	9	2.9[illegible]
PACIFICORP	889.1	0	3400.9	–3	127.7	1	505.0	8	14.4	14.2	13.0	13	1.6[illegible]
PECO ENERGY	1043.8	14	4186.2	4	124.7	–7	629.5	45	11.9	14.6	13.0	12	2.0[illegible]
PINNACLE WEST CAPITAL	371.7	2	1669.8	–1	23.0	–44	218.7	–3	6.2	11.3	10.5	13	2.1[illegible]
PORTLAND GENERAL	281.9	6	983.6	3	38.8	43	90.8	–13	13.8	10.2	9.3	19	1.[illegible]
POTOMAC ELECTRIC POWER	402.3	13	1876.1	3	9.3	–33	94.4	–58	2.3	3.9	4.1	42	0.[illegible]
PP&L RESOURCES	732.9	12	2751.8	1	96.4	NM	350.4	43	13.2	NM	12.7	13	2.[illegible]
PUBLIC SERVICE CO. OF COLORADO	522.9	–2	2110.6	3	51.1	1	178.9	5	9.8	9.5	12.6	14	2.[illegible]
PUBLIC SERVICE ENTERPRISE GROUP	1670.0	14	6167.2	4	164.5	15	711.2	–1	9.9	9.8	12.2	11	2.[illegible]
PUGET SOUND POWER & LIGHT	330.8	–2	1179.3	–1	45.1	10	135.7	13	13.6	12.1	10.3	13	1.[illegible]
ROCHESTER GAS & ELECTRIC	270.5	11	1016.3	2	–0.4	NM	71.9	–3	NM	10.5	8.5	13	1.[illegible]
SCANA	323.6	2	1353.0	2	34.9	88	174.0	43	10.8	5.8	10.9	17	1.[illegible]
SOUTHERN	2308.0	21	9179.5	11	181.8	–8	1191.0	11	7.9	10.3	12.7	15	1.[illegible]
SOUTHWESTERN PUBLIC SERVICE (4)	201.0	7	847.8	2	23.2	9	121.5	25	11.5	11.3	16.2	12	2.[illegible]
TECO ENERGY	334.4	3	1392.3	3	40.9	70	189.7	21	12.2	7.4	16.0	17	1.[illegible]
UNICOM	1581.5	8	6910.0	10	78.4	–18	733.9	75	5.0	6.5	11.4	11	3.[illegible]
WASHINGTON WATER POWER	240.2	26	755.0	13	32.6	22	87.1	13	13.6	14.0	11.2	13	1.[illegible]

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CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1995 $ MIL	SALES CHANGE FROM 1994 %	SALES 12 MONTHS 1995 $ MIL	SALES CHANGE FROM 1994 %	PROFITS 4TH QUARTER 1995 $ MIL	PROFITS CHANGE FROM 1994 %	PROFITS 12 MONTHS 1995 $ MIL	PROFITS CHANGE FROM 1994 %	MARGINS 4TH QUARTER 1995 %	MARGINS 4TH QUARTER 1994 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-9	12 MONTHS EARNING PER SHARE
WHEELABRATOR TECHNOLOGIES	352.4	–9	1451.7	10	18.9	–60	162.1	–10	5.4	12.0	10.5	18	0.88
WISCONSIN ENERGY	467.9	8	1770.5	2	61.8	–3	235.2	29	13.2	14.7	12.5	15	2.13
WPL HOLDINGS	219.2	16	807.2	3	23.3	62	74.9	7	10.6	7.6	11.9	14	2.33
(B) GAS, OIL & TRANSMISSION													
GROUP COMPOSITE	**10317.0**	**24**	**34481.9**	**7**	**–12.3**	**NM**	**1540.0**	**–16**	**NM**	**6.6**	**7.8**	**22**	**1.33**
ATLANTA GAS LIGHT (3)	328.8	0	1063.0	–9	30.2	NM	59.2	53	9.2	0.5	9.8	19	1.03
BROOKLYN UNION GAS (3)	398.1	11	1252.0	–6	44.7	4	93.7	6	11.2	12.0	10.8	14	1.92
COLUMBIA GAS SYSTEM	711.2	7	2635.2	–4	–611.3	NM	–432.3	NM	NM	11.0	–26.2	NM	–8.51
EASTERN ENTERPRISES	250.1	13	949.4	3	25.2	137	60.4	55	10.1	4.8	15.3	12	2.98
EL PASO NATURAL GAS	408.5	79	1038.0	19	22.9	–2	85.4	–5	5.6	10.3	12.2	13	2.4
MCN	540.7	31	1584.9	3	43.9	96	106.4	33	8.1	5.4	15.2	17	1.4
NATIONAL FUEL GAS (3)	316.3	13	1012.5	–9	32.4	6	77.7	–9	10.2	10.9	9.7	16	2.0
NICOR	466.3	18	1480.1	–8	35.7	3	99.8	–9	7.7	8.8	14.9	15	1.9
NORAM ENERGY	968.1	32	2964.7	4	34.9	46	65.5	28	3.6	3.2	9.5	18	0.4
ONEOK (4)	238.5	44	1022.1	31	8.4	8	43.4	20	3.5	4.7	11.0	13	1.6
PACIFIC ENTERPRISES	598.0	–17	2343.0	–12	51.0	–2	197.0	8	8.5	7.3	13.9	14	2.1
PANHANDLE EASTERN	1318.4	13	4967.5	8	78.4	47	303.6	35	5.9	4.6	14.0	15	2.0
PEOPLES ENERGY (3)	317.6	3	1043.9	–14	36.1	44	73.1	21	11.4	8.2	11.4	16	2.1
SONAT	579.3	35	1990.1	15	7.4	–66	192.9	36	1.3	5.1	12.8	16	2.2
UGI (3)	423.7	117	1106.4	48	18.9	62	17.9	–47	4.5	6.0	4.0	48	0.4
USX-DELHI GROUP	228.8	60	654.1	15	1.6	23	4.0	NM	0.7	0.9	3.3	27	0.4
UTILICORP UNITED	863.9	40	2798.5	17	7.5	–78	79.8	–15	0.9	5.4	0.8	17	1.7
WASHINGTON GAS LIGHT (3)	274.3	13	860.2	–3	38.3	38	73.5	27	14.0	11.4	13.3	13	1.6
WICOR	249.4	19	860.6	–1	17.0	41	39.5	19	6.8	5.7	13.4	14	2.3
WILLIAMS	837.0	75	2855.7	63	64.4	88	299.4	82	7.7	7.2	9.6	18	2.7

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

Abbott Laboratories 12d
ABM Industries 21e
Advanced Micro 9d
ADVO 21d
Aetna Life & Casualty 17b
AFLAC 17b
AGCO 15c
Ahmanson (H.F.) 17c
Air Products & Chemicals 4
Airborne Freight 23c
Airgas 21b
AirTouch Communications 22A
AK Steel Holding 16b
Alaska Air Group 23a
Albemarle 4
Alberto-Culver 6d
Albertson's 10c
Alco Standard 5
Alcoa 16a
Alexander & Alexander 17a
Alexander & Baldwin 23d
Allegheny Ludlum 16b
Allegheny Power 24a
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Ames Dept. Stores 8
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Amgen 12b
Amoco 11a
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AMR 23a
Analog Devices 9d
Anheuser-Busch 6c
Anixter International 5
Aon 17b
Apogee Enterprises 21a
Apple Computer 18b
Applied Materials 15c
Archer Daniels Midland 4
Archer Daniels 10b
Arco Chemical 4
Arkansas Best 23d
Armco 16b
Armstrong World 6b
Arvin Industries 2b
Asarco 16c
Ashland 11a
AST Research 18b
AT&T 22a
AT&T Capital 17a
Atlanta Gas Light 24b
Atlantic Energy 24a
Atlantic Richfield 11a
Automatic Data 18c
AutoZone 8
Avery Dennison 15a
Avnet 21b
Avon Products 6d
AVX 9d

B

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Baker Hughes 11b
Ball 7a
Bally Entertainment 14b
Baltimore G&E 24a
Banc One 3b
Bancorp Hawaii 3d
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
Bankers Trust 3a
BanPonce 3c
Banta 21d
Bard (C.R.) 12d
Barnes & Noble 8
Barnett Banks 3c
Bausch & Lomb 12d
Baxter International 12d
Bay Networks 18c
Bear Stearns 17a
Bearings 21b
Beckman Instruments 9c
Becton, Dickinson 12d
Bell Atlantic 22b
BellSouth 22b
Bemis 7b
Bergen Brunswig 12a
Best Buy 6b
Best Products 8
Bethlehem Steel 16b
Beverly Enterprises 12c
BJ Services 11b
Black & Decker 15b
Block (H&R) 17a
Boatmen's Bancshares 3b
Bob Evans Farms 14a
Boeing 1
Boise Cascade 19a
Boise Cascade Office Prods 21b
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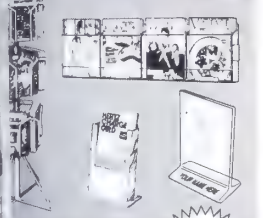

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WLR Foods 10b
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York Intl. 13a
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EDITED BY AMY DUNKIN

FRANCHISING: A RECIPE FOR YOUR SECOND CAREER?

FRANCHISING

Carol Stearns, a Decorating Den franchisee, says she couldn't have done it alone. In the 11 years she has owned her decorating business in Fort Walton Beach, Fla., she has often turned to her franchisor for help. This was especially true when Stearns, a U.S. Air Force Reserve officer, was called to active duty in 1991 during Operation Desert Storm and had to be away for three months. During her absence, the franchisor kept in constant touch with her two employees to offer assistance. "In addition to the name recognition you have with a franchise, you have so many people on the same team to help you when you really need it," Stearns says.

That access to a support network, along with a ready-made blueprint for building a business, is what has attracted so many corporate downsizing or burnout victims to franchising. From 1989 to 1994, the estimated number of franchisee-owned businesses in the U.S. increased by more than one-third, from 404,269 to 540,342, according to the International Franchise Assn. At any one time, there are 3,000 to 5,000 franchisors. Whereas the industry was once fueled by entrepreneurs in their 20s and 30s, "now we're seeing more white-collar workers in their 40s and 50s taking on these operations," says Michael Seid, managing director at Strategic Advisory Group, a franchise consultancy and finance firm in Sag Harbor, N.Y.

Now may be one of the better times to embark on such a venture. New opportunities in computer software, environmentally safe products, and even bagel making have been emerging. What's more, years of hard-fought battles to ease the imbalance of power between franchisors and licensees have had some effect. While inequities still exist, the pendulum has begun to swing somewhat in the direction of franchise owners. "Franchise agreements have become less of a dictatorship," says Michael Leven, chief executive officer of US Franchise Systems, an Atlanta-based lodging company.

Some franchisors, for example, are offering more attractive contracts, with stock options, automatic contract renewals, and empowerment through franchisee advisory boards. Take Bruegger's, a franchisor of 200 bagel bakeries. Its licensees pay a $1,000 franchise fee per store and buy $35,000 of preferred stock, which will convert to common shares if the company goes public in the next few years, says CEO Steve Finn. Franchisees can prosper through the success of an individual store and the growth of the parent company.

LEARNING TO SHARE. Other companies are beefing up their encroachment policies so that franchisees are guaranteed more territorial protection. Choice Hotels International, which owns seven lodging chains including Comfort Inns and Econo Lodge, recently strengthened its competition provision. If a hotel is in an area that has 10,000 or fewer guest rooms, the property gets one mile of protection from the same brand for every 30 rooms up to a five-mile maximum. If the area contains more than 10,000 rooms, there is one mile of protection for every 75 rooms, to a limit of three miles.

As a way to help entice licensees, some franchisors are offering the option to share one space with other brands. Franchisees can lease or buy smaller sites, reducing them lower overhead costs. Two years ago, Baskin-Robbins started opening 500- to 600-square-foot areas inside convenience stores and along with other well-known food companies. Traditional stand-alone outlets

Choosing a Franchisor

SELECT a company with a well-accepted trademark.

TALK to current franchisees and those who have recently left the system. Franchisors are required by law to provide such names.

ASK FRANCHISORS about any litigation against the company and research it further.

EVALUATE the franchisor's business and marketing plans. Make sure ad dollars will get pumped back into your franchise market.

KEEP A RECORD of conversations, including date, persons talked to, promises made. Issues to consider: How close by can the franchisor place a competing unit? Are franchisees subject to mandatory arbitration?

INCLUDE ANY PROMISES made by the franchisor in the final written agreement. Otherwise, they probably won't be binding.

WORK with an experienced franchise attorney and a financial consultant who understands the franchising business.

DATA: AMERICAN ASSOCIATION OF FRANCHISEES & DEALERS
AMERICAN FRANCHISEE ASSN

e 1,000 square feet. ibranding increases con- er traffic and lowers al costs, says Bill m, Baskin-Robbins' di- r of national sales and hising.

e type of industries that ace franchising also have ne more varied. One category, health care, is ing because independent tors of medical-supply s, home-health-care cies, and other related esses often can't keep ith the rapid changes in eld. Vicki Jones seized pportunity when she led Women's Health que Franchise System 93. The six-store chain items such as breast heses, wigs, and turbans, ll as books on a host of n's health issues.

r people who want to get into the franchise game, federal and state disclosure requirements have eased the path of entry. In 1994, the Federal Trade Commission adopted changes to the Uniform Franchise Offering Circular. They mandate that this commonly used disclosure document be written in plain English and include more complete details about past litigation against the franchisor, supplier rebates, computer systems, revenues, training programs, and advertising funds.

SAFETY FIRST. But the laws alone won't protect you. Susan Kezios, president of the American Franchise Assn., a Chicago-based franchisee advocacy group, stresses the importance of having a skilled attorney scrutinize the franchise contract before you sign it. "If you don't understand an industry, you don't know how [the franchisor] can get you," she says. For example, you would want reassurance that once you open your business, the franchisor won't place a competing unit across the street. You also want to make sure the company will pump ad dollars into your market.

Fraudulent franchisors with unfair rules do exist. "Practice safe franchising," says Robert Purvin Jr., chairman of the American Association of Franchisees & Dealers. The issue of earnings claims remains a big problem. You should try to get them in writing, but don't be surprised if you can't. Only 20% of franchisors provide this information. If a company doesn't have a Uniform Franchise Offering Circular, end all discussions immediately. Avoid hastily closed deals and high-pressure tactics.

A franchise can cost from several thousand to hundreds of millions of dollars, including the expense of buying or leasing the site. Along with the right to use a brand name, you get a network of services, such as training, marketing, advertising, and volume discounts. The Women's Health Boutique company charges $99,300 to $176,500, depending on the location. That includes a one-time franchise fee of $25,000 to $35,000.

Financing can come from a variety of sources, including banks, the Small Business Administration, and the franchisor. While industry experience is not mandatory, financial institutions prefer to lend money to people with a proven track record. In addition to the purchase cost, the franchisee pays weekly or monthly royalties, which range from 3% to 10% of gross sales, as well as advertising and marketing fees of 0.5% to 2%. There may also be charges for contract renewals, grand openings, and site selection. The average contract runs 10 years.

BEER AND MUFFLERS. Buying a brand name does not guarantee automatic success. A study released in December, 1993, by the Entrepreneurial Growth & Investment Institute in Washington revealed that 35% of franchised businesses less than four years old failed, compared to 28% of independent operations. Travel agencies and yogurt shops are currently having a hard time achieving success, says Purvin. High-profit businesses include breweries, bottling distributors, and muffler and transmission centers.

Of course, franchising is not for everyone. "You lose some autonomy. The name on the store is not yours," says Kenneth Franklin, president of Franchise Developments Inc., a consulting firm. Indeed, since franchising requires adherence to certain standards, it's a way of doing business best suited to team players. And though companies today are more open to input from franchisees, the main source of new ideas is the franchisor. Still, for people making the transition from the corporate world to entrepreneurship, it offers an attractive middle ground.

Laura Koss-Feder

Resource List

AMERICAN ASSOCIATION OF FRANCHISEES & DEALERS, P.O. Box 81887, San Diego, Calif. 92138-1887. Tel.: 619 235-2556, Franchisee InfoLine: 800 733-9858

AMERICAN FRANCHISEE ASSN., 53 W. Jackson Blvd., Suite 205, Chicago, Ill. 60604. Tel.: 800 334-4232

INTERNATIONAL FRANCHISE ASSN., 1350 New York Ave., 9th Floor, Washington, D.C. 20005-4709. Tel.: 202 628-8000

DATA: BUSINESS WEEK

SIFTING THROUGH RETAIL'S WRECKAGE

In a stock market that has been defying gravity, many retailers can't get off the ground. So a number of companies are taking action to shore up their businesses and get their share prices back on track. The Limited is buying back nearly one-quarter of its shares, Toys 'R' Us is restructuring, and Dayton Hudson is implementing an aggressive cost-reduction program at its Mervyn's discount-apparel chain.

Retailing experts are mixed as to whether these efforts will work. But it's tough to imagine that this sector could do much worse. For 1995, total return for the Standard & Poor's 500-stock index rose nearly 38%, while the broad S&P retail-stores index was up just 12%. For January, the retail index fell almost 2% while the S&P 500 returned more than 3%. "Never has retailing done so poorly in an expanding economy," says Frank Cappiello of Cappiello-Rushmore funds in Bethesda, Md.

In the past few years, massive store overbuilding fatally crossed paths with record consumer debt levels and an aging population that is reining in spending. As a result, a shakeout is under way. "Witness the conga line at the bankruptcy courts," says retail consultant Alan Millstein. Discounters Bradlees and Caldor and apparel retailers Today's Man and Edison Brothers Stores are but a few to file recently for Chapter 11. Then there are the store closings. In the past three months, retailers have shuttered about 3,500 stores, according to Walter Loeb of Loeb Associates, a retail consulting firm.

The good news is that all this is going to brighten the picture for the stronger merchants. "Retailers learned a harsh lesson last year," says David Poneman, an analyst at Sanford C. Bernstein. "They have taken a more austere look at expenses and inventories, which should produce better operating results this year."

Still, retailing is only for the long-term investor. Don't expect significant changes in profitability for six to nine months. By then, Toys 'R' Us hopes to see a payoff. With its decision to shrink inventory, redesign stores, and introduce Babies 'R' Us, the former powerhouse "is doing more than ever to improve performance," says Dorothy Lakner of Oppenheimer. The stock is now near its 52-week low of 20½.

Dayton Hudson has the albatross of underperforming Mervyn's around its neck. But Marian Kessler, co-manager of Crabbe Huson Equity Fund, is still buying because she likes the company's other assets, and she's betting management will get Mervyn's in gear or dump it. Dayton also owns the well-performing Target discount chain and a department-store division, which includes the growing Marshall Field stores. "The earnings potential for Target alone makes this stock cheap," says Kessler. Dayton's price-to-sales ratio is 0.26, compared with the company's historical average of 0.35 and 0.46 for the S&P department-store index. The stock is 10 poi off its two-year high of 8

Federated Departm Stores and The Limited both companies for the r minded investor. The ver is still out on whether F erated can successfully gest its acquisitions of Broadway and R. H. M department stores. But ue-seeking fund mana Cappiello thinks the Broadway stores being verted to Bloomingdale' California will take off as state's economy expa The stock is trading a points off its 52-week of 30½ but has potential gains, says Cappiello.

LIMITED GAINS. Last fall, Limited sold 17% of its mate Brands division, w includes Victoria's Se stores and Bath & Works, to the public. recently, it announce would buy $1.6 billion w of stock, signaling man ment's faith in better t to come. "I think The Lim has turned the corner, the changes are taking h says Gregory Weiss of newsletter *Investment Q ty Trends*.

SMART MONEY

Investors are lookin less risk might consider well-capitalized comp with strong managemen excellent performance. Roebuck and Kohl's, the western department- chain, are two retailers have caught the eyes of ey managers. Sears has a strong comeback since It closed underperfor stores and renovated t mainder, adopted brand- merchandise, and start "Softer Side of Sears" Although Kohl's sells heavy premium to the ket multiple of 14, it joying strong growth partment stores natio find their niche.

Retailers will contin be battered. But the companies are makin necessary changes to s and prosper. *Toddi G*

Store Stocks to Check Out

COMPANY	STOCK PRICE 2/16/96	52-WEEK HIGH	PRICE TO EARNINGS
DAYTON HUDSON	74⅞	80⅞	14
FEDERATED DEPARTMENT STORES	27⅞	30⅞	13
KOHL'S	58⅞	61	22
SEARS ROEBUCK	42⅞	46⅞	14
TOYS 'R' US	23⅞	30	12

DATA: BLOOMBERG FINANCIAL MARKETS

HE CARDINAL RULES F BIRD-FEEDING

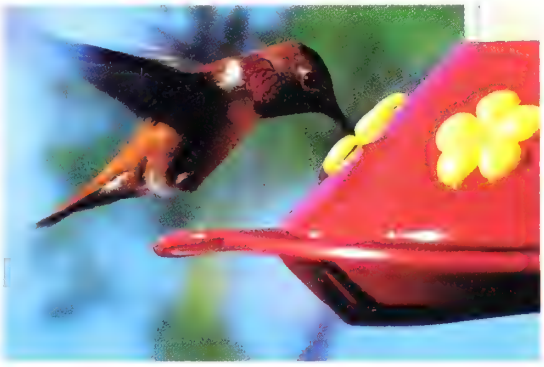
ck Stahler, a marting executive in burban Chicago, /s watching birds l in his backyard is a . Not only does he like to erve the action while sip- his morning coffee but sometimes drives home n his office during lunch njoy the "colorful menag- of nature" flitting about our feeders.

tahler has plenty of com- y in his bird-feeding h. The U.S. Fish & llife Service estimates 41 million Americans d $2 billion annually on seed. "It's a way to give nce to our frantic lives," Sue Wells, executive di- r of the Na- l Bird-Feed- Society (P. O. Box 23B, hbrook, Ill. 60065-0023).

ARD GRIST. But what feathered friends to a-flappin'? First, give the food they like to 'Birds have taste differ- s the same as people do," says Wells, whose organization gives feeding tips in a bimonthly newsletter. For example, goldfinches and pine siskins love thistle or Niger seed, whereas mourning doves and juncos would rather munch on millet and milo. To attract the widest variety of species, black-oil sunflower seeds are best, according to preference tests run by Cornell University's ornithology lab in Ithaca, N. Y.

On chilly days, birds also flock to suet packed in blocks or peanut butter smeared on a pinecone. The fat helps them maintain their 108-degree body temperature. Year-round, dried or fresh fruit and baked goods (bagels, hard rolls, pizza crusts) draw winged ones, as does crumbled dry dog food moistened with water. Regardless of what is served, remember that little bird beaks and gullets can't accommodate big chunks. So break the food into small pieces.

Because birds don't have teeth, give them some grit, such as sand or ground oyster shells, which they can use to grind food in their gizzards. Also, commercial bird feeders are often designed to accommodate only certain types of seed: Take care to put in the right kind. Otherwise, birds will peck futilely at inaccessible seeds or become frightened by seeds rushing too easily out of the chute.



TINY TREAT: *A hungry hummingbird*

Location of food is as important as presentation. Craig Tufts, chief naturalist at the National Wildlife Federation, says that leaving food "right out in the open"—far from leafy cover—is no good. If the birds come at all, they will be easy prey for hawks and cats. Furthermore, many species like to take their food away from the feeder to eat it, particularly if they need another surface, like a tree branch, to break open their seed. "It's best to put your feeders within 5 to 10 feet of a bush, shrub, or tree," Tufts says. It is also advisable to set up more than one feeding station to prevent any beaked bullies from monopolizing the food. Even a gluttonous grackle can't be on two feeders at once.

Backyard planting schemes can attract birds as well. Stephen W. Kress, an ornithologist who offers instruction on creating bird-friendly environments in *The Bird Garden* (National Audubon Society, $24.95), says the key is to install plants of varying heights. For example, mockingbirds often sing in the treetops, feed off insects on bush branches, and nest in shrubs.

Kress also recommends picking "a mix of plants that will provide birds with food all year." Something like a mulberry tree, which bears fruit in summer, American cranberry bushes, which issue in the fall and winter, and Washington hawthorn, which has springtime berries, would do the trick.

REWARDS. Finally, like every living thing, birds need water. They love the trickle of running water, but if creating a stream in your backyard seems a bit onerous, a garden hose dripping into a shallow metal trash-can lid will work, too. Hummingbirds, with their penchant for midair bathing, will come to a hose with a simple mister attachment woven between the branches of a bush or the arms of a deck chair.

"It's the greatest hobby in the world," says bird enthusiast Stahler. "With minimum investment, you get infinite rewards." That's enough to make anybody happy as a lark. *Kate Murphy*

LEISURE

Help on Feeding the Birds

ORGANIZATIONS

ject FeederWatch A nationwide effort spearheaded the Cornell University ornithology lab in which ticipants report on the bird species that come to ir feeders. Membership is $15 (800 843-BIRD).

WEB SITES

://www.iii.net/users/pdragon/birdseed.html Help- hints regarding seed and dealing with squirrels.

://compstat.wharton.upenn.edu:8001/~siler/ ling.html Links to bird species references, muse- exhibits, and book reviews.

BOOKS

Birdfeeder Book by Donald and Lillian Stokes 1.95, Little Brown)

Complete Guide to Bird Feeding by John Dennis 6, Knopf)

DATA BUSINESS WEEK

WORTH NOTING

■ **ELDER CARE.** Are your folks starting to slow down? *Aging Parents and Common Sense*, a free guide from the Equitable Foundation and Children of Aging Parents, offers a comprehensive look at such topics as housing and estate planning. It includes an excellent 17-page resource directory and bibliography. Write to The Equitable Foundation Inc., 787 Seventh Ave., Box B, New York, N. Y. 10019.

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3M Innovation Network
http://www.mmm.com

Advanced Micro Devices
http://www.amd.com

Aetna
http://www.aetna.com

The American Institute of Architects
aia@capcon.net

American Power Conversion
http://www.apcc.com

The American Stock Exchange
http://www.amex.com

Ameritech
http://www.ameritech.com

AMP
http://www.amp.com

AST
http://www.ast.com

AT&T
http://www.att.com

Bell Atlantic
http://www.bell-atl.com

Cadillac
http://www.cadillac.com

Canon
http://www.canon.com

Chrysler
http://www.chryslercorp.com/

Cisco Systems
http://www.cisco.com

Compaq
http://www.compaq.com

Computer Associates
http://www.cai.com

Cray Research
http://www.cray.com/

Digital PC
http://www.pc.digital.com

Federal Emergency Management Agency
http://www.fema.gov

FedEx
http://www.fedex.com

Ford
http://www.ford.com/

Fujitsu
http://www.fujitsu.com

GE Information Services
http://www.ge.com/geis

Global Village
http://www.globalvillage.com

Haworth
http://www.haworth-furn.com

Hewlett-Packard
http://www.hp.com

IBM
http://www.ibm.com

Intel
http://www.intel.com/

Jack Daniels Tour
http://www.infi.net/jack daniels/

Janus Funds
http://networth.galt.com/janus

Kodak
http://www.kodak.com/

Eli Lilly & Company
http://www.lilly.com

Lotus
http://www.lotus.com

MapInfo
http://www.mapinfo.com

MCI
http://www.mci.com

Microsoft
http://www.microsoft.com/

Motorola, Wireless Data Group
http://www.mot.com/wdg/

NYU's School of Continuing Education
http://www.nyu.edu/sce/

Netcom On-Line Communication Services
http://www.netcom.com

Network Systems Corporation
http://www.network.com

Novell
http://www.novell.com

Ohio Department of Development
http://www.ohiobiz.com

Okidata
http://www.okidata.com

PageNet
http://www.pagenet.com

PeopleSoft
http://www.peoplesoft.com

Platinum Technology
http://www.platinum.com

The Principal Financial Group
http://www.principal.com

PSINet
http://www.psi.net/

Raytheon
http://www.raytheon.com

Roberts Express, Inc.
http://www.roberts.com

Charles Schwab
http://www.schwab.com

SAS Institute
http://www.sas.com/

Siemens
http://www.siemens.com

Silicon Graphics
http://www.sgi.com

Sprint
http://www.sprint.com

Sun Microsystems
http://www.sun.com

Tektronix
http://www.tek.com/Color_Printers/

Texas Instruments
http://www.ti.com

Toyota Motors
http://www.toyota.com

Unisys
http://www.unisys.com

United Airlines
http://www.ual.com

Unlimited Systems/KONEXX
http://www.konexx.com

UPS
http://www.ups.com

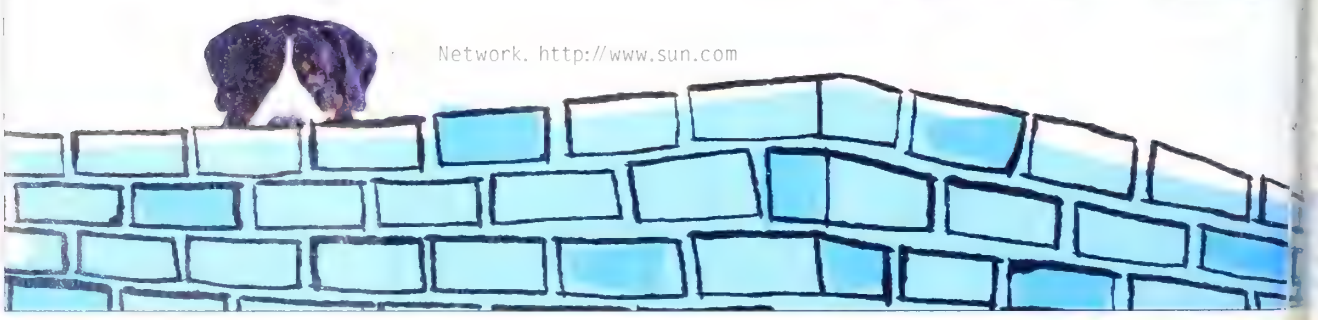
The Vanguard Group
http://www.vanguard.com

Zenith Data Systems
http://www.zds.com

Sun

Network here excels at keeping out intruders.

Network. http://www.sun.com

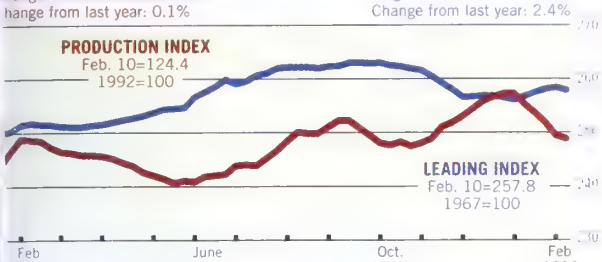


Business Week Index

RODUCTION AND LEADING INDEXES

hange from last week 0.2%
hange from last year: 0.1%

Change from last week: –0.2%
Change from last year: 2.4%



dexes are 4-week moving averages

production index declined in the week ended Feb. 10. Before calculation he four-week moving average, the index increased to 124.5, from 123.3, d by rising output of cars, trucks, and rail-freight traffic.

leading index fell in the latest week, although the unaveraged index managed to eze out a small gain, rising to 258.3, from 257.6 in the previous week. Sharply er stock prices and a gain in the growth rate of M2 led the latest increase.

oduction index copyright 1996 by The McGraw-Hill Companies BW leading index copyright 1996 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/17) thous. of net tons	2,085	1,971#	3.3
AUTOS (2/17) units	120,955	131,928r#	–18.5
TRUCKS (2/17) units	123,218	118,239r#	3.8
ELECTRIC POWER (2/17) millions of kilowatt-hrs	NA	68,315#	NA
CRUDE-OIL REFINING (2/17) thous. of bbl./day	NA	13,614#	NA
COAL (2/10) thous. of net tons	17,955#	17,722	–12.0
PAPERBOARD (2/10) thous. of tons	NA#	NA	NA
PAPER (2/10) thous. of tons	NA#	NA	NA
LUMBER (2/10) millions of ft.	404.8#	392.4	–11.6
RAIL FREIGHT (2/10) billions of ton-miles	22.5#	22.4	–8.2

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (2/16) S&P 500	655.37	650.03	35.6
PORATE BOND YIELD, Aaa (2/16)	6.86%	6.87%	–16.9
USTRIAL MATERIALS PRICES (2/16)	109.9	109.8	–2.4
INESS FAILURES (2/9)	NA	291	NA
L ESTATE LOANS (2/7) billions	$506.5	$506.5	8.7
IEY SUPPLY, M2 (2/5) billions	$3,652.8	$3,643.2r	1.7
IAL CLAIMS, UNEMPLOYMENT (2/3) thous.	366	389	14.7

ces: Center for International Business Cycle Research (CIBCR), Standard & s, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/21) $/troy oz.	396.800	403.100	4.9
STEEL SCRAP (2/20) #1 heavy, $/ton	144.50	144.50	1.4
COPPER (2/17) ¢/lb.	118.3	121.1	–15.1
ALUMINUM (2/17) ¢/lb.	76.0	75.0	–16.9
COTTON (2/17) strict low middling 1-1/16 in., ¢/lb.	81.70	82.00	–10.6
OIL (2/20) $/bbl.	21.05	18.91	11.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (2/20)	5.20%	4.93%	5.94%
MERCIAL PAPER (2/21) 3-month	5.16	5.13	6.12
TIFICATES OF DEPOSIT (2/21) 3-month	5.17	5.13	6.11
D MORTGAGE (2/16) 30-year	7.24	7.29	9.04
ISTABLE MORTGAGE (2/16) one-year	5.40	5.39	6.80
E (2/21)	8.25	8.25	9.00

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (2/21)	105.08	106.81	96.98
GERMAN MARK (2/21)	1.45	1.47	1.47
BRITISH POUND (2/21)	1.54	1.54	1.59
FRENCH FRANC (2/21)	5.01	5.06	5.15
ITALIAN LIRA (2/21)	1575.5	1580.5	1627.3
CANADIAN DOLLAR (2/21)	1.38	1.38	1.39
MEXICAN PESO (2/21)[3]	7.525	7.505	5.690

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

L SALES

ay, Feb. 27, 8:30 a.m.EST ▶ Retail probably fell 0.2% in January, accord- the median forecast of economists ed by MMS International, one of The w-Hill Companies. Sales edged up a 0.3% in December, but the blizzard nany shoppers stuck at home for part uary. In particular, vehicle purchases xcluding cars, retail sales probably sed 0.1% in January, after rising in December.

JCER PRICE INDEX

ay, Feb. 27, 8:30 a.m.EST ▶ Producer of finished goods likely rose 0.4% in y, after rising 0.5% in December.

CONSUMER CONFIDENCE

Tuesday, Feb. 27, 10 a.m.EST ▶ The Conference Board's index of consumer confidence likely rebounded to 89 in February, after dropping 12 points to 87 in January.

CONSUMER PRICE INDEX

Wednesday, Feb. 28, 8:30 a.m.EST ▶ Consumer prices increased 0.3% in January, after edging up 0.2% in December, forecasts the MMS survey. Excluding food and energy, prices likely rose 0.2% in January, on top of a 0.1% gain in December.

INTERNATIONAL TRADE

Wednesday, Feb. 28, 8:30 a.m.EST ▶ The trade deficit for goods and services likely widened to $8.2 billion in December. The gap narrowed sharply to $7.1 billion in November, from $8.2 billion in October.

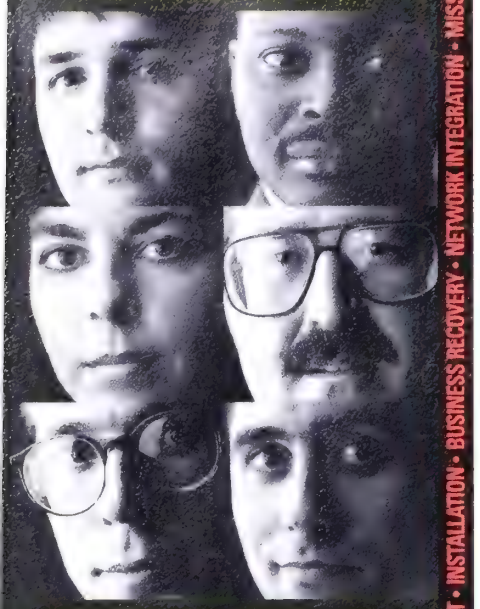
BUSINESS INVENTORIES

Wednesday, Feb. 28, 10 a.m.EST ▶ Inventories held by manufacturers, wholesalers, and retailers probably grew 0.1% in December, says the MMS survey, the same gain as in November.

NAPM SURVEY

Friday, Mar. 1, 10 a.m.EST ▶ The National Association of Purchasing Management's industrial index likely stood at 45.5% in February, hardly better than the recessionary 44.2% reading in January.

PICK A MULTIVENDOR ENVIRONMENT IN COMPANIES LIKE THESE ›



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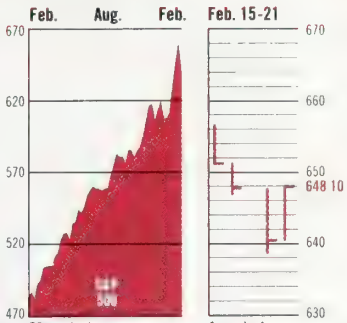
nvestment Figures of the Week

MENTARY

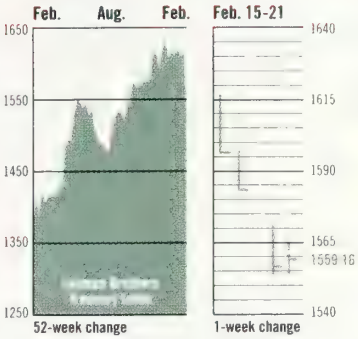
l Reserve Chairman Alan span's semiannual testimony state of the economy roiled and bond markets. The bond t plunged on fears that another short-term interest rates was ger in the cards. That prospect ne yield on the 30-year Treasury from 6.2% to 6.4% in one ne stock market had a volatile s well, with the Dow suffering day losing streak until gaining oints on Feb. 21, to close at Rallies in computer stocks s Hewlett-Packard and IBM shave the stock market's decline to 1.1%.

STOCKS



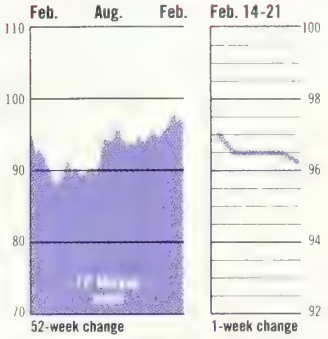
52-week change +33.6%
1-week change −1.1%

BONDS



52-week change +11.7%
1-week change −3.1%

THE DOLLAR



52-week change +1.3%
1-week change −0.7%

RKET ANALYSIS

TOCKS	Latest	% change Week	52-week
ONES INDUSTRIALS	5516.0	−1.1	38.8
E COMPANIES (S&P MidCap Index)	227.2	0.3	27.9
COMPANIES (Russell 2000)	321.3	0.1	26.5
MPANIES (Russell 3000)	368.8	−0.8	33.1

GN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	3725.6	−0.5	23.4
(NIKKEI INDEX)	20,372.2	−2.7	12.5
TO (TSE COMPOSITE)	4961.1	−1.9	20.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	4.94%	4.93%	5.83%
30-YEAR TREASURY BOND YIELD	6.37%	6.09%	7.54%
S&P 500 DIVIDEND YIELD	2.13%	2.10%	2.68%
S&P 500 PRICE/EARNINGS RATIO	18.8	18.9	16.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	580.4	577.9	Positive
Stocks above 200-day moving average	70.0%	72.0%	Neutral
Speculative sentiment: Put/call ratio	0.68	0.69r	Neutral
Insider sentiment: Vickers sell/buy ratio	1.75	1.66	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

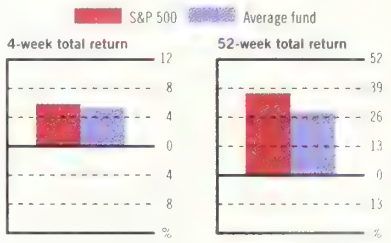
ONTH LEADERS	% change 1-month	12-month	Strongest stock in group	% change 1-month	12-month	Price
AND GAS DRILLING	27.7	61.9	ROWAN	28.8	95.8	11 3/4
HINE TOOLS	16.5	11.6	CINCINNATI MILACRON	25.7	24.3	26 7/8
S	14.0	40.6	HASBRO	18.3	11.8	35 1/2
MUNICATIONS EQUIPMENT	13.8	63.2	ANDREW	40.6	31.1	50 1/4
INES	13.8	50.7	SOUTHWEST AIRLINES	27.3	71.3	29 1/8

ONTH LAGGARDS	% change 1-month	12-month	Weakest stock in group	% change 1-month	12-month	Price
NGS AND LOANS	−5.1	32.2	H.F. AHMANSON	−6.5	36.2	23 1/2
HOLIC BEVERAGES	−3.0	20.7	ADOLPH COORS	−13.5	18.5	20
ONAL TELEPHONE COMPANIES	−2.9	30.9	BELLSOUTH	−8.0	32.1	38 5/8
UTION CONTROL	−2.9	5.7	WMX TECHNOLOGIES	−4.2	9.1	28 3/8
ES	−2.0	36.2	BROWN GROUP	−4.7	−60.9	12 3/4

TUAL FUNDS

MORNINGSTAR INC

RS ek total return	%	LAGGARDS Four-week total return	%
TREND GOLD	25.3	STEADMAN INVESTMENT	−3.9
EER INDIA A	18.8	WRIGHT EQUIFUND-MEXICO	−3.7
SCO STRATEGIC GOLD	16.5	WARBURG PINCUS JAPAN OTC COMMON	−2.6
k total return	%	52-week total return	%
S	96.4	AMERICAN HERITAGE	−22.9
RECIOUS METALS A	82.6	STEADMAN TECHNOLOGY GROWTH	−21.0
R CAPITAL APPRECIATION	80.7	EV MARATHON GREATER INDIA	−20.1



ATIVE PORTFOLIOS

DR/McGRAW-HILL

mounts represent the value of $10,000 l one year ago portfolio

ages indicate total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$13,532	$12,342	$12,260	$10,561	$10,162
−3.14%	−0.23%	−4.57%	+0.11%	−1.42%

n this page are as of market close Wednesday, Feb. 21, 1996, unless otherwise in- ndustry groups include S&P 500 companies only; performance and share prices are as of market close Feb. 20. Mutual fund returns are as of Feb. 16. Relative portfolios are valued as of Feb. 20. A more detailed explanation of this page is available on request. r=revised

NO COLD WAR WITH CHINA, PLEASE

Thucydides had it right 2,500 years ago, when he said that rising powers challenge the established international order. Back then, he was talking about Athens and Sparta. Today, it would be China and the U.S. Brilliant on the Peloponnesian War, Thucydides failed to ask what Sparta could have done to peacefully integrate a rising Athens into the Mediterranean "world" system of that era. That is the question America must now ask itself of China. Is it friend or foe?

The very posing of the question reflects the dangerous state of relations between the two countries. Without strong leadership in either country, extremist posturing and a dialogue of mutual misunderstanding are taking hold. Preachy moralism from the U.S. and prickly nationalism from China substitute for serious discussions. Both sides are tone deaf to one another and awash in emotionalism. It is at moments like this that nations stumble into hostility. For the U.S. and China, it may be just weeks away. On Mar. 23, Taiwan will vote for a new President and perhaps for greater de jure independence. No one knows if China will react militarily or how the U.S. will respond. Willy-nilly, U.S. policy toward China is sliding from engagement to containment. It is time to craft a strategy based on realpolitik and mutual national interests.

HOW THINGS WENT SOUR

It started as a tale of two markets. By opening its market to Chinese exports, the U.S. believed that it could do for China what it did for Japan and Korea—generate a fast-growing private economy that fostered political democracy. China, in turn, believed that by opening its huge market, it would raise living standards and national wealth. A wonderful trade.

Slowly it all began to sour. There were the harsh sentences handed out to human-rights activists, Chinese exports of missiles and nuclear-weapons materials to Pakistan and Iran, and a spending spree by the People's Liberation Army. In recent months, China appeared to challenge the economic assumptions of a free-market economy. It limited key economic sectors to homegrown companies, demanded technology transfer in return for plum contracts, and became world headquarters for software piracy. Its huge trade surplus with the U.S. fanned flames of anger over job losses in America. China was fast becoming a rogue mercantilist threatening the global economy.

China's disappointment with America is equally deep. Washington opposed its bid for the Olympic Games in 2000, broke a promise to help China get into the World Trade Organization, and threatened its one-China policy by allowing Taiwan's President to visit Cornell University after insisting he would not be issued a visa. U.S. hectoring about orphanages, Tibet, and human rights was seen as hypocritical, given America's record on race, crime, and drugs. The U.S. accepted software piracy in Taiwan and military dictatorships in Korea and Taiwan for decades. Where was the even-handed justice China deserved from a friend?

An Asian cold war will benefit neither the U.S. nor China. Beijing's leaders are desperate for economic growth. There no way they can keep China stable without it, and that mea access to the U.S. market. The U.S., for its part, is despera to take advantage of the greatest economic opportunity the next century. Exclusion from China's market would me a huge loss of profits and jobs. It is foolish for America to ma an enemy out of a nation that isn't one now.

WHAT CAN BE DONE

Bold action is needed. The contradictions and suspicio that are poisoning relations today should be swept aw with a new Shanghai communiqué, signed in Beijing by Pr ident Bill Clinton and President Jiang Zemin. Shanghai would build on the first communiqué signed in 1972 by Pr ident Nixon and Premier Zhou En-lai that set the stage 20 years of peaceful relations and mutual economic benefi

Shanghai II would commit the U.S. to bringing China i the WTO immediately as a developing country, with the und standing that its status would switch within two years that of a developed nation. This move would shift strai U.S.-China bilateral trade issues into a multilateral fra work. Europe and Japan would have to accept their responsi ities and hold China to accepted norms of intellectual-prope rights and technology transfer. The U.S. would stop playing fool—smashing barriers, only to see European and Japan companies reap the benefits. China would gain the prestig seeks in entering the WTO, buy 24 months to deregulate, o vert its currency, and pass commercial laws. Both sides wo get the international integration they seek for China.

Shanghai II would recommit the U.S. to a one-China icy and recognize the legitimacy of China's goal of national unification with Taiwan. China would publicly renounce use of force to gain reunification. In side letters, Washing would promise not to encourage Taiwanese independe Here, President Clinton must be forceful enough to k congressional conservatives at bay. He must be equally fo ful in telling Beijing that the U.S. would defend Taiwan itarily, as it would any democratic market economy whe has vital interests.

Finally, Shanghai II would recognize the legitimate se ity rights of both nations in Asia. The U.S. would accept na's right as a rising power to modernize its military, ex certain weapons, and claim disputed territories, as I does. China would accept the nuclear nonproliferation tr and end any export of nuclear materials.

For Shanghai II to work, both Clinton and Jiang must ly lead. From 1972 to 1992, every American and Chinese of state battled domestic pressures threatening the U.S. na relationship. Neither Clinton nor Jiang has proved willi do so thus far. They must run their own foreign policy.

Clarity, precision, and consistency are missing in cu U.S.-China relations. Only a bold stroke can end the slide cold war and containment.

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booming stock market. Yet the dislocations caused

ECONOMIC ANXIETY

y globalization and technological change are creating
reat anxiety—a sense that something has gone badly
rong. It hasn't. But there are very serious side effects—
tagnant wages, income inequality, political scapegoating,
nd corporate insensitivity.

HERE'S A FRAMEWORK FOR THINKING ABOUT THE ISSUES—AND SOME SUGGESTIONS. PAGE 50

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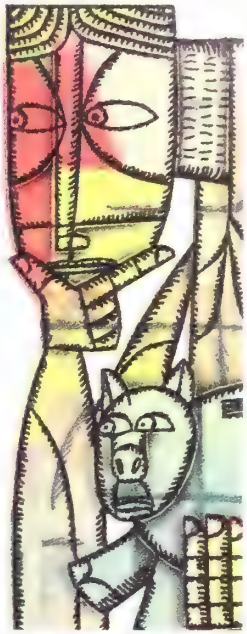

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "It's going to be a waltz of elephants, and yo want to be sure you don't get stepped on."

—Amos Hosetter, chairman of Continental Cablevision, which U S West is buying in the wake of telecom reform

AMELIO: *Overpaid?*

FAT WALLETS

THE SWEET AND THE SOUR AT APPLE

NEW APPLE COMPUTER CEO Gil Amelio's fat pay package is coming under fire, this time in court. In a recent class action, much-feared shareholder lawyer William Lerach calls the $10 million-plus compensation for Amelio, who replaced the ousted Michael Spindler Feb. 5, "wildly excessive." At embattled Apple, Amelio will earn more than 42% above what he got heading National Semiconductor.

The suit questions how Apple can justify this when it didn't search outside for a CEO—and since its worst problems came after Amelio joined its board in 1994. Plus, Lerach decries Apple's guaranteeing Amelio a $10 million lump sum if it's sold within the next year. (Apple insists it's not for sale.)

Amelio has called his pay "what the marketplace commands," and Apple dismisses the suit as meritless. But Lerach's move commands attention: His track record against Silicon Valley targets includes a $20 million settlement from Apple in the 1980s. This action, which also charges Apple directors and two ex-CEOs with a grab bag of alleged chicanery, is filed in California courts, possibly because federal shareholder suits just became tougher to pursue. *Peter Burrows*

CAR TALK

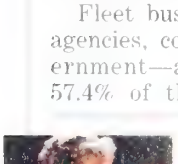
THE FLEET IS STILL IN AT FORD

WHY HAS THE RESTYLED FORD Taurus been slow off the starting line? Ford executives have insisted that consumers aren't turned off by Taurus' radical new look or stiff sticker price. They've blamed Taurus' startling 28% sales plunge in 1995's fourth quarter largely on Ford's intentional efforts to back away from low-margin fleet purchasers. But an independent analysis of Taurus sales suggests that the fleet excuse doesn't wash.

Fleet business—to rental agencies, corporations, government—accounted for 57.4% of the new Taurus' sales during its first three months on the market (October through December, 1995). That's up markedly from 51% in the comparable 1994 quarter, according to an owner-registration analysis for BUSINESS WEEK by Polk Co. Numerical sales were down for both fleet and retail, yet retail was off twice as much. And despite a $600 rebate since New Year's, sources close to Ford say fleet sales are still above 50%.

A spokesman at Ford doesn't dispute the Polk data, but now says Ford never meant to imply fleet sales were the main reason for the Taurus' woes. Ford, which has relied on these bulk purchases to keep Taurus America's top-selling car, has been trying to push fleet sales down to 40%—particularly by selling less to rental outfits—and lure the more profitable retail customer. *Keith Naughton*

TAURUS: *Plunging sales*



DYLAN: *How many roads...?*

SHOW BIZ

POSITIVELY WALL STREET

NOW IT'S BOB Dylan, corporate troubadour. The singer, who made his name in the 1960s as an anti-Establishment icon, entertained a conference of real estate big shots recently. A publicist for the folk legend says this is the first time she knows of that he has played such a room, but wouldn't comment further. That leaves unclear why he did this kind of gig or whether he will do more of the same.

Nomura Securities International, which laid out an estimated $3.5 million to stage the conclave for 800 at Phoenix's plush Arizona Biltmore, paid Dylan about $250,000, says a knowledgeable source. Warbling such old favorites as *All Along the Watchtower* and *Like a Rolling Stone*, Dylan and a six-piece band played for the likes of Sam Zell, Alfred Taubman, and David Simon. A haggard-looking Dylan shared the bill with other oldies celebrities: Crosby, Stills & Nash and Rod Stewart. *Leah Nathans Spiro*

PAC MEN

THE HILL'S UNLIKE MR. ENTERTAINMEN

SENATOR ORRIN HATCH, T outspoken foe of wick lyrics, isn't always the *b noir* of show biz. The Sen Judiciary Committee cha man is pushing a meas that means big bucks for entertainment industry which has given him gen ous campaign donations. recently denounced *H from the Bong*, a song fr Sony Music, whose affiliate, Sony Pictures Entertainment, sent his campaign $1,000.

COPYRIGH MAN: *Hat*

The Utah Republican is backing a bill that extends copyright protection from 50 to 70 years beyond a so or screenplay writer's l time, arguing this brin U. S. law closer to inter tional norms. That means r sic and movie producers co charge royalties for the t extra decades. After th the material is free. (posing Hatch restaurants and o ers who claim th must pay unfai large sums to licer songs.

In 1994, when ran for reelection, Ha bagged $32,500 in contri tions from media giants su as Time Warner, Paramou Communications, and F The senator declines to co ment, but Senate Judicia Staff Director Manus Coor says: "It's outrageous to su gest that . . . we're behold to the music and motion p ture industries." Coor notes that Hatch has su ported strong intellectu property laws for quite long time. *Catherine Yo*

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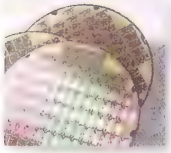

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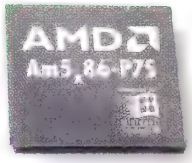

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Readers Report

CHAMPIONING FELIX WAS NO FLUB

Your article "Bad counsel at the Economic Council?" (News: Analysis & Commentary, Feb. 26) called Laura Tyson's National Economic Council decision to recommend Felix Rohatyn as vice-chairman of the Federal Reserve Board of Governors the "Felix Flub." Far from being a flub, this recommendation was a sound choice. Rohatyn is a man of great integrity who would have brought to the board more than 30 years of experience in global financial markets and a sterling reputation in the business community. His views about the best way to increase noninflationary growth are certainly within the mainstream of economic thought and policy. Moreover, he is on the best of personal terms with Alan Greenspan and Robert Rubin. If there was a flub in the case of Rohatyn, it is not that he was recommended. It is that ideological and partisan pressures in the Senate threatened to block his nomination, led him to withdraw his name rather than become what *New York Times* columnist Abe Rosenthal called the "football du jour," and deprived the country of his service and advice in this important position.

Lloyd N. Cutler
Former White House Counsel
Washington

HILTON'S REPUTATION GETS TIDIED UP

I was appalled by your article "Is there really room at the Inn for Steve Bollenbach?" (News: Analysis & Commentary, Feb. 19) on Hilton Hotels. You are wrong when you say Barron Hilton is not decisive or supportive. The company was not sold simply because an adequate offer was never received. During the 30 years that I worked with him, the confidence and backing that he extended to his key people was unwavering.

The executives who left the company resigned for reasons other than those you mentioned. You also glossed over the tremendous increase in Hilton's earnings. This is not the troubled company you describe. Hilton's trophy properties are amongst the most profitable hotels in the U.S.

The decision to bring Steve Bollenbach aboard was clearly Barron's. Contrary to your writings, you will find that they will be a most successful team and Barron will be Bollenbach's greatest supporter.

Carl T. Mottek (retired 1994)
Past President
Hilton Hotels Div.
Santa Barbara, Calif.

CORRECTIONS & CLARIFICATIONS

In "Operator, please connect me" (News: Analysis & Commentary, Feb. 26), LCI International should have been described as the sixth-largest long-distance company, not the fifth-largest.

"What Ford has riding on these four wheels" (News: Analysis & Commentary, Feb. 26) erroneously added a $615 destination charge on to prices for the new Ford F-150 pickup truck. The correct base price for the F-150 is $15,045, and the starting price for the F-150 XLT with an extended cab and automatic transmission is $21,966. Those prices include the destination charge.

"The fall of an American icon" (Cover Story, Feb. 5) should have said that the five-year cost of running an Apple Macintosh computer is $39,501, not $41,439, according to market researcher Gartner Group.

SALTON/MAXIM WASN'T INSIDE WALL STREET

In your article entitled "Is someone sneaking a peek at BUSINESS WEEK?" (News: Analysis & Commentary, Feb. 5) you listed the names of several stocks that experienced "suspicious trading" prior to the release of BUSINESS WEEK's Inside Wall Street column. The article disclosed that the Securities & Exchange Commission and the exchange

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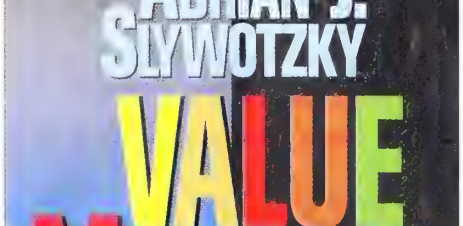

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Readers Report

have been alerted as to possible inside trading involving these stocks.

Although I applaud BUSINESS WEEK efforts to prevent leaks of public-compa ny information contained in the maga zine, I believe that the article create the impression that the suspicious trad ing could have involved management o the named companies.

The management of Salton/Maxim di not know that information concernin the company was going to be containe in an Inside Wall Street column and di not trade company stock at any tim close to the issue date of such column either before or after that date.

William B. Ru
Senior Vice-President/Chie
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WOULD YOU BUY A USED (OR NEW) CAR FROM THIS MAN?

I was outraged by your story "Revo lution in the showroom" (Cover Stor Feb. 19). I feed my family, pay m mortgage, my taxes, and my bills b selling new and used vehicles. How dar you say "This guy is history"! I work 1 to 12 hours a day, on the average days a week. If the big retailers tak over—Wal-Mart, Blockbuster, Circu City, etc.—who is going to demonstrat the product? Explain leasing vs. buy ing? I dare anyone who thinks what w do is unnecessary to spend a mont with me on my lot and see how fas they change their tune.

Ben Gall
Vista, Cali

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HE FUTURE OF CAPITALISM
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y Lester C. Thurow
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S CAPITALISM HEADED FOR A NEW DARK AGE?

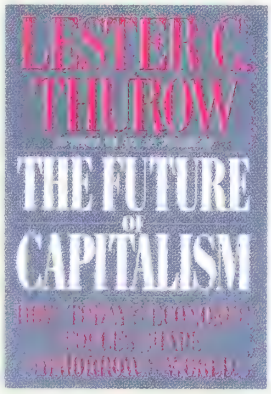
A mere six years after the Berlin Wall fell, victorious capitalism seems to be in a funk. Japan's conomy is stagnant, European unemoyment is stuck in double digits, and the U.S., a Presidential candidate is ding high by railing against a couple of llars of the system: free trade and the nfettered pursuit of corporate profits. multaneously, a vigorous and brutal obal capitalism has emerged, one that romises prosperity to the multitudes hile forcing enfeebled governments to owtow to its commands.

How to understand these seemingly ntradictory developments? Massachutts Institute of Technology economist ester C. Thurow says all are manifestions of the dire struggle facing the arket economy. In *The Future of Capalism*, Thurow concedes that no other stem provides such gobs of efficiency d technology. But with no guiding eology other than avarice, these very rengths could become the system's unoing—it operates in and often conibutes to a world of growing econom imbalances. Missing is a set of mmon goals and values that citizens uld rally behind. The upshot: Thurow arns that we could be slowly sinking to a new dark age.

An overstatement? Let's hope so. But Thurow takes us on this cheerless roll past the perils confronting capilism, he makes a convincing case that e marketplace lacks the magic to save e world from deep trouble. Other obrvers have covered much of this terin: the challenges of sustaining a naon and maintaining wage levels in a obal economy, worries about more freent, ever deeper recessions, and the owth of intolerance and separatism. urow, to his credit, brings these probns into very sharp focus.

However, the MIT economist comes short on solutions. He compares our plight to that of Christopher Columbus: We're off on a voyage across uncharted seas, bound for a land we don't know. He gives precious few tips on how to cross safely but plenty of details about the monsters we'll encounter en route.

Switching from Columbus, Thurow goes on to describe the economic scene in geological terms. Upon a bubbling magma of technological change, five new tectonic plates are crashing about, creating all sorts of economic convulsions. These plates are: the end of communism, the shift to brainpower industries, the growing power and wealth of old people, a global economy, and the decline of the U.S. as a dominant economic power. Add it all up, and you have a world bursting with uncertainty.



After capitalism triumphed in the late '80s, a host of countries, from Azerbaijan to Argentina, pushed themselves toward market economies. But this had the effect of flooding the world with unneeded low-skilled labor, prompting mass migrations, a fight for jobs, and growing support for such ultranationalists as France's Jean-Marie Le Pen, Russia's Vladimir Zhirinovsky, and U.S. Presidential candidate Pat Buchanan.

Without the bogeyman of communism to unite them, the capitalist countries, Thurow says, find themselves struggling to adapt to this world in flux. Many citizens see their incomes falling and gaps between rich and poor growing. And with Mexico as an object lesson, even rich countries put up with all sorts of pains, including ever higher unemployment, just to protect their currencies from the cruel whims of global markets.

Reading this book, you get the sense that countless invisible hands are pushing all of us off a cliff. "In some profound sense capitalistic values are... at war with capitalism," he writes. "Capitalism will succeed or fail based on the investments it makes, yet it preaches a theology of consumption." Without the cold war to justify spending on infrastructure and education—exactly what the global economy demands—countries are in a squeeze. The bond markets stand ready to punish those that run deficits to make such investments, and voters, already suffering from falling incomes, won't tolerate tax hikes.

What's missing, Thurow says, is an ideology, a set of principles for which voters would be willing to make sacrifices. Thurow discusses other civilizations, including those of the Egyptians and the Romans, and shows how their focus on the community rather than the individual led to great public works. By contrast, 500 years ago, he says, the Chinese had the technology to lead the world but no uniting vision of where that technology should carry them. So the Chinese lost their way, much as the Europeans lost the momentum of Rome 1,000 years earlier. A similar decline could occur now, he says, as the ethnic and financial volcanoes smoking on the fringes of capitalism's turf erupt in the First World. He predicts, for example, that the trade imbalance between the U.S. and Asia—a major "fault line"—will provoke a global financial collapse similar to that of the 1930s.

The solutions? Again, that's where *The Future of Capitalism* falls short. Thurow shoehorns in some common suggestions along the way, warning, for example, that the U.S. government will have to slash entitlements to the affluent elderly, make a historic push for education, and limit Japanese imports. But those are mere footnotes in a jeremiad. Thurow seems resigned to the notion that capitalism will move to save itself only when the sinking status quo becomes intolerable.

BY STEPHEN BAKER

Baker is BUSINESS WEEK'S *Pittsburgh bureau chief.*

WHAT THE SYSTEM LACKS, THUROW SAYS, IS A SET OF COMMON GOALS CITIZENS CAN RALLY BEHIND

BY STEPHEN H. WILDSTROM

BUNDLES OF TROUBLE?

Software loaded on new computers includes a high proportion of junk

The ads scream, "$1,500 worth of free software!" As a wary shopper, you might wonder how manufacturers can afford to throw $1,500 worth of programs into a $2,000 system. And computer buyers are discovering that the software isn't worth anywhere near that much. My mail suggests bundled software has become a very sore point with new computer buyers.

The programs that come bundled with new computers can be valuable. The software provided with new Macs, for example, is consistently good. But all too often on Windows machines, what you get is a collection of outdated programs or limited "special editions" that are come-ons for you to pay for upgraded versions. These assortments are known in the trade as "shovelware" for the selectivity with which they are chosen. One PC I looked at recently came with software of widely varying quality filling a third of its 1.6 gigabyte hard drive.

SLOW TO ADJUST. The advent of Windows 95 is a contributing factor. Since August, virtually every new computer shipped to stores has come with the new Microsoft operating system loaded. But manufacturers have been slow to adjust their software packages.

For example, when you boot up a new Toshiba 100CS laptop, it launches programs that allow easy adjustment of the display and that tracks the remaining battery life. Both programs just clutter your screen while duplicating built-in Windows 95 functions.

IBM ThinkPads come loaded with ScreenCam 2.0 from IBM's Lotus Development unit. ScreenCam is a useful program that records your actions in Windows, then lets you replay how you opened and worked with a spreadsheet, for example. ScreenCam is great for training purposes and presentations. However, version 2.0 simply doesn't work under Windows 95.

Voice-mail software built into Compaq Presarios is a more serious problem. The program turns the Presario into a sophisticated answering machine. But it was designed to work with Windows 3.1. It must be turned off before Windows 95 communications programs, including the built-in Microsoft Network and Internet access, can use the modem. Sean Burke, director of Presario marketing, says "we're trying to do a few things that will make the system a little more intelligent."

CUTTING BACK. Things are getting better. Compaq conducted a market study and found "that a vast majority of people didn't put a high value on the software that was bundled," says Burke. As a result, the company, long a trendsetter, plans to cut back drastically on the amount of software it loads into its computers. Compaq is also ditching Presario Gallery and other user "front ends," the screens that computer makers developed to make machines easier to run. The interfaces were developed for Windows 3.1 but have become superfluous and confusing under Windows 95. Watch for other manufacturers to follow Compaq's lead.

It's hard to generalize about what bundled software is truly worthwhile because tastes and needs vary so much. Reference works, such as an encyclopedia and dictionary, are very handy. Most people also find Intuit's Quicken or Microsoft Money useful. Basic multifunction programs that include word processors and spreadsheets—such as version 4 of Microsoft Works or Claris Works—are good value.

But watch out for anything with "Lite" or "SE" in the name. These are usually stripped-down versions of well-known programs, such as games that include only the easiest levels. Fortunately, you can uninstall any program that came on a CD-ROM and simply reinstall it later if and when you change your mind. As for the rest of it, deal with junk software the same way you handle junk mail. Just toss it into that handy on-screen Recycle Bin.

BULLETIN BOARD

HARDWARE

SLIDE SHOWS ON TV

Taking a computerized presentation on the road is fine if you know you'll have the right audiovisual equipment. The Maxmedia TV Mini from UMAX Technologies (800 562-0311) is a handy $179 insurance policy. The device, about the size of a remote control, attaches to the video connector of your laptop and allows you to use any television that has video-in connectors—including European sets using the PAL standard—as a display. Just be careful planning your slides: A TV set offers much lower resolution than a computer monitor, so use big type. And differences in the number of scan lines mean that you'll lose a bit off the top and bottom of the screen.

THE WEB

MICROSOFT MAXES OUT

Microsoft Corp.'s launch of its Internet Information Server (IIS) on Feb. 12 revealed both the power and vulnerability of the Net. The software giant offers IIS, its answer to Web-server software from Netscape Communications Corp. and others, for free download to all users of the Windows NT Server operating system. But demand for the 13-megabyte download, running at the rate of more than 10,000 requests a week, made it impossible for many people to connect to www.microsoft.com for technical support or other purposes. Microsoft says it will increase capacity.

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BY GARY S. BECKER

HUMAN CAPITAL: ONE INVESTMENT WHERE AMERICA IS WAY AHEAD

YARDSTICK: The U.S. spends more than any other nation on acquiring knowledge–a factor ignored by statistics and GOP flat-tax proposals

Becker, the 1992 Nobel
aches at the University
nd is a Fellow of the

The productivity of modern economies depends heavily on investments in the acquisition of knowledge and skills. Nevertheless, government statistics fail to consider expenditures on human capital as savings and investment.

Education, training on the job and in specialized institutes, and expenditures to improve health all contribute to human capital. Human capital is as much a part of the wealth of nations as are factories, housing, machinery, and other physical capital. In fact, economists estimate that human capital accounts for much more than half of all the wealth in the U.S. and other economically advanced nations.

While U.S. gross private investment in plants, equipment, and inventories has accounted for less than 15% of gross domestic product in recent years, the true investment rate that includes human capital is much higher. Spending on education alone in the U.S. is 7½% of GDP, and Jacob Mincer of Columbia University estimates that spending for on-the-job and other training amounts to about 3% to 5%. At least one-fifth of the 14% of GDP spent on health should also be classified as investment in human capital, since it contributes to productivity and a longer working life.

FORGONE EARNINGS. Even these figures greatly understate the amounts spent on human capital, because they neglect the forgone earnings component of education and other investments. For example, a student who leaves a $40,000 job to spend two years getting an MBA forfeits $80,000 of earnings in order to advance his or her training. This is as much a cost of getting the MBA as the tuition. Indeed, forgone earnings can account for more of the cost, since B-school tuition averages, between public and private programs, less than $12,000 per year.

College and high school students and men and women enrolled in training programs also forgo considerable earnings when they are in school. Forgone earnings appear to account for more than half the total cost of high school and college education. Many students are tempted to drop out of school to get jobs because they are aware of how much income they must give up to continue their education. Free or reduced tuition alone does not provide income to cover living expenses.

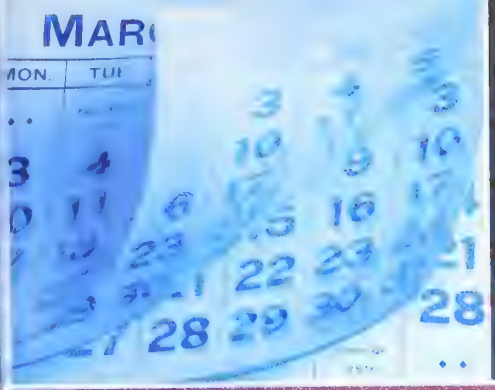
The total earnings forgone by students in all types of schools and programs probabl exceed 3% of GDP. Adding this to direct ex penditures gives a total human capital in vestment in excess of 15% of GDP, which greater than the physical capital share. Sinc investments in both types of capital amour to about 30% of GDP, America's commitmer to future generations is far greater than usu al investment statistics suggest. If other cour tries included spending on human capita they too would show higher investment total

The U.S. tends to spend more than othe nations on knowledge and high-level skil because its economy is the most advance in the world. For example, a much large fraction of American teenagers receive som college education than youths in most Eur pean countries. This is why international con parisons of investment that focus only o physical capital understate the efforts of th U.S. and other nations that spend a lot o knowledge—and overstate those of nation that emphasize plant and equipment at th expense of people.

SCHIZOPHRENIC APPROACH. Since investmer in people is so important to growth an progress, one might expect considerable a tention to its tax treatment. Yet the tax cod takes a schizophrenic approach: On the on hand, forgone earnings—which can be co sidered investment—entirely avoid taxatio while on the other, tuition and school fee are treated as consumption and are usuall not deductible as contributing to future skil and earnings. Since forgone earnings are suc an important component of the total cost c human capital investments, these investment on the whole, perhaps unintentionally, receiv more favorable tax treatment than do ex penditures on plants and equipment.

The Republican Presidential candidate who advocate cuts in taxes on savings and in vestment have concentrated on physical cap ital. They have not considered how a flat in come tax would affect incentives to inves in education and other types of human capita when some components of these investment are treated as consumption and others are en tirely neglected.

No nation can thrive in the modern worl without investing in its people. This is wh national statistics on savings should includ the cost of investing in human capital, and th debate over tax reform should deal with th effects on people's investments in themselve



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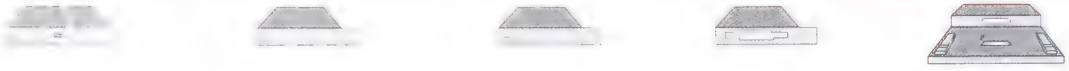

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Has It Changed Your Life Yet?

BY GENE KORETZ

FUSSING WITH THE FUNDS RATE

The Fed keeps missing its target

On Jan. 31, the Federal Reserve Board's Open Market Committee confirmed market expectations by lowering its target for the federal funds rate—the interest rate that banks pay to borrow overnight money from one another—by 25 basis points, to 5.25%. So what's happened to the funds rate?

As economist William V. Sullivan Jr. of Dean Witter Reynolds Inc. points out, in the 17 trading days following its announcement, the Fed was able to meet or exceed its target on only two occasions. On the 15 other sessions, the effective funds rate averaged a full one-eighth of 1% below the Fed's target.

At the least, this suggests that the U. S. financial system is awash with liquidity. Sullivan thinks one reason may be the recent tendency of commercial banks to attract more cash into savings accounts and to tap other sources such as large certificates of deposit—thus lessening their reliance on federal funds.

But even with this shift, notes Sullivan, a fundamental question remains: Does the lower-than-targeted funds rate reflect a desire by the Fed to be slightly more accommodative than its stated intention—or does the flood tide of cash reflect an unanticipated further slowing of the economy?

WHERE MEXICO GETS ITS SALSA

Exports are fueling the recovery

As Mexico's economy finally starts to rebound, it is the nation's export sector that is leading the way, reports economist Alfredo Thorne of Banco J. P. Morgan in Mexico City.

The trend is underscored by Mexico's surprisingly strong trade performance in January. While imports rose to $6.9 billion, nearly 8% above the average monthly level in November and December, exports surged almost 12%, to $7.7 billion. The upshot was a record trade surplus of $779 million.

The results are impressive for two reasons: They come in the face of declines in overall U. S. imports, indicating that Mexican exports are gaining market share in the U. S. and are likely to pick up more as the U. S. economy gains steam. And they reflect a healthy rise in exports to other countries, which normally take only 20% of the total.

DIVIDE AND PROSPER

Why investors like stock splits

When publicly traded companies decide to raise capital by offering additional shares to the market, investors who snap up the offerings often take a relative bath (BW—Mar. 27). But those who buy shares of companies splitting their stock do relatively well, report economists David Ikenberry, Graeme Rankine, and Earl K. Stice in a Rice University working paper.

Their analysis of 1,275 2-for-1 splits on the New York and American Stock Exchanges from 1975 to 1990 revealed that split stocks outperformed stocks of companies of similar size and book-to-market values—by 7.94% one year after the announced split and a cumulative 12.14% after three years. Since more than 97% of stock splits occurred among companies whose shares were trading above the median price observed for similar-size companies, the researchers conclude that a prime motive for splits is to maintain share prices within a desired trading range—and thus to possibly improve share liquidity and marketability.

The post-split performance of stocks also suggests that most managers of companies with relatively high-priced stocks choose to split them only if they are fairly confident that the new share prices will not fall too far—below the desired range. So they tend to act when corporate prospects are favorable.

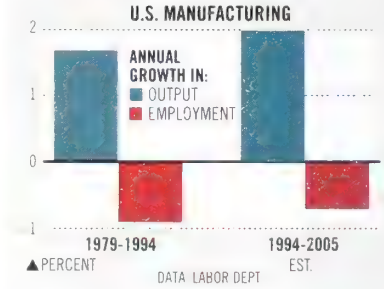
Why does it take the market a year to catch on to most of the favorable information implicit in split announcements? Since stocks usually appreciate about 3.4% when the splits are first unveiled, the researchers conclude that, at least initially, investor enthusiasm is tempered with a healthy degree of skepticism.

SQUEEZING OUT JOE SIX-PACK

U.S. factories will keep losing jobs

In many respects, U. S. manufacturers appear to be in their most competitive shape in decades—thanks to such factors as restructuring, technology investment, improved productivity, and currency realignment. But while this suggests that industrial output will accelerate in the decade ahead, it does not mean the factory sector will stop losing jobs.

That is the implicit message of recent Labor Dept. projections, which forecast that manufacturing output will expand at an average annual rate of 2% from 1994 to 2005—up from just 1.7% in the prior 15 years. This implies that manufacturing's share of national output, which fell from around 20% in 1979 and 18.5% in 1994, will stop shrinking and stay close to its 1994 level in 2005.



On the other hand, with factory labor productivity expected to rise at a heady 2.7% annual rate, manufacturing industries will continue to shed workers through the decade. The agency estimates that job losses will slow to an average pace of 119,400 a year from 182,500—the average annual clip between 1979 and 1994. By 2005, the manufacturing workforce is expected to account for just 12.6% of total U. S. nonagricultural employment, compared with 16% in 1994, nearly 20% in 1979, and 33% in the mid-1950s.

Interestingly, several manufacturing industries with rising output are also expected to post job losses. These include computers and office equipment, which is expected to shed 8,000 jobs a year, and motor vehicles and related equipment, whose employment ranks will drop by an average 11,200 jobs annually.

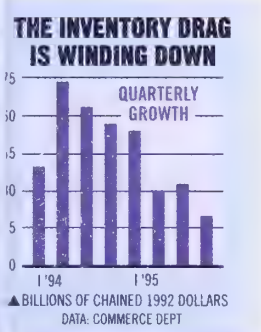
The single biggest job loser: the apparel industry, which is forecast to shed 18,900 jobs a year as a result of shrinking output and productivity gains.

BY JAMES C. COOPER & KATHLEEN MADIGAN

AFTER THE 'SOFT PATCH,' FIRMER GROUND AHEAD

U.S. ECONOMY So where's the collapse? Under the weight of a government shutdown, labor strikes, and the winter from ell, the January data were supposed to tumble like owling pins.

True, the reports look weak, but readings on everyıing from retail sales to housing starts to industrial roduction have failed to cave in the way many ana-'sts had feared. Early-bird February reports even ffer glimmers of a rebound. Add in the encouraging 'ends in inventories and foreign trade, and the econ-ny appears headed toward firmer ground as it crawls ıt of what Federal Reserve Chairman Alan reenspan calls its "soft patch."



Growth is not so ebullient as to preclude further cuts in interest rates, however. That's especially true with January inflation remaining so tame at both the producer and the consumer levels.

The economy's softness was evident in the fourth quarter. The Commerce Dept. reported that real gross domestic product grew at an annual rate of ıly 0.9% last quarter, down from a sturdy 3.6% pace in e third quarter. First-quarter growth could come in 'en worse.

But look beneath the fourth quarter's headline num-:r and you'll see why the early first-quarter data are ıldıng up better than expected and why the second-ıarter outlook is a lot brighter.

RST, WHILE CONSUMER SPENDING slowed from 2.8% pace to only 0.8%, the monthly retail sales data ow that shoppers ended the fourth quarter on a sol- note. January sales, while down, still began this ıarter above last quarter's level. And February re-rts look promising.

Another big drag on fourth-quarter GDP was slower ventory growth, but that's a plus for 1996 production. ısinesses have been adding to their stockpiles at a re-ced rate for a year and a half (chart). The fourth-arter pace was close to the historical norm, sug-sting that the inventory adjustment is nearly finished, cept for a lingering problem in the auto industry.

Also, a sharp drop in spending by the federal gov-ınment overshadowed accelerations in the growth of siness-equipment investment and exports. The shut-down accounted for some of the 12% plunge in government demand, but defense spending also took a dive. Excluding the federal government—less than 7% of GDP—the economy grew nearly 2% last quarter, and overall demand increased almost 3%.

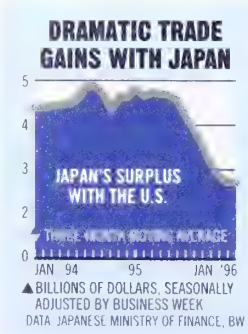
A lot of that demand came from overseas. Fourth-quarter exports grew 10.9%, and the pace accelerated in each quarter of 1995. At the same time, imports slowed in each successive quarter, with almost no growth at yearend. The December trade deficit rose slightly to $6.8 billion, from $6.7 billion in November, but those two readings were the lowest in two years.

As a result, fourth-quarter net exports posted the largest quarterly improvement in five years. Exports should continue to grow faster than imports in 1996, providing another prop under economic growth.

Japan's fast-shrinking trade surplus with the U. S. has accounted for some of the narrowing in the U. S. gap. After factoring in seasonal adjustment by BUSINESS WEEK, data from Japan's Ministry of Finance show that, in the three months ended in January, the surplus averaged $2.7 billion. That's down 42%, from $4.5 billion in the same period a year ago (chart). Further improvement is likely.

In addition, Mexico's recession shows signs of having bottomed out. That means the drag on U. S. exports created by the peso crisis is easing.

HELP FROM TRADE and inventories is always welcome, of course, but consumers account for two-thirds of GDP. Although economic anxiety may fill this year's Presidential campaign rhetoric (page 50), there is nothing particularly worrisome in the recent trend of income growth, and consumers are confident enough to help move the expansion forward.



True, retail sales slipped 0.3% in January, as snow-weary consumers put off purchasing big-ticket items, but spending in November and December was revised higher. January sales of nondurable goods rose 0.2%, led by increased buying at grocery stores and pharmacies. The weekly store surveys done by Mitsubishi Bank/Schroder Wertheim and the Johnson Redbook Service indicated that retail buying bounced back in February.

So did confidence. The Conference Board's index of

consumer confidence jumped back to 97 in February, regaining nearly all of its 11-point tumble in January, to 88.4 (chart). The indexes of consumers' appraisal of current conditions and expectations for the future both rebounded.

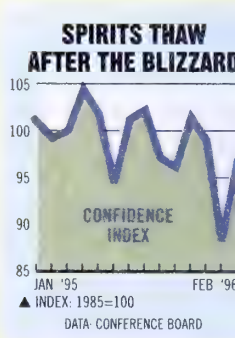
Optimism may be holding at a fairly high level because income growth hasn't folded even with the slowdown in job gains. In 1995's second half, real disposable income grew at a 4% annual rate, more than double the 1.8% pace of spending. Because work time fell during the blizzard, January personal income likely suffered from frostbite. February's jump in confidence, however, suggests that earnings haven't dried up.

STEADY INCOME GROWTH and high expectations help to explain the unexpected 4.4% increase in housing starts in January, to an annual rate of 1.45 million. Given the bad weather, starts were expected to have dropped sharply. But California's recovery buoyed the total: Housing starts in the West increased a big 15.2% in January.

Like retailing, housing started this quarter above its fourth-quarter average. However, the recent sell-off in the bond market, if not reversed, may hinder future activity. The 30-year fixed mortgage rate is above 7.2% again, and loan applications to buy a home have fallen since December, even though refinancing activity continues to rise.

The best signal that bond yields will probably he down again in coming months is that low inflatior giving the Federal Reserve the room it needs to short-term rates. The producer price index of finisl goods rose 0.3% in January, but excluding energy a food, the core index fell 0.1%. Except for a jump energy costs, price pressures further back in the p duction pipeline were generally subsiding.

Higher energy prices also lifted the January consumer price index. The CPI rose 0.4% in the month, as energy costs jumped 2.1%. Excluding energy and food, the core index rose 0.3%, but part of that increase reflects an unusually large 0.7% surge in apparel prices. Clothing prices barely rose during 1995, and with too many apparel stores competing for customers, the January increase looks lik quirk in the data.



There's no question that the economy hit a bump the road at the end of 1995, and a host of special f tors have made the winter months difficult to read. I as new data are now beginning to show, the we ness is not so serious that the economy cannot sh back into a higher gear this spring.

MEXICO

CRAWLING OUT FROM UNDER

After last year's economic free fall, some analysts say that a turnaround has begun in Mexico. But any upturn will be modest and slow-going.

Real gross domestic product shrank 6.6% last year. However, seasonally adjusted gains in the third and fourth quarters suggest that the worst times were back in the spring (chart). The monthly data also show the improvement. Both industrial activity and construction, one of the sectors hit hardest in the recession, increased in November.

Mexico's upturn will not be smooth, however. The Finance Ministry admits that with consumer demand weak, first-quarter GDP will drop between 2% and 3% from a year ago. More than 1 million people were thrown out of work last year, and neither government employment plans nor capital-intensive exporters will offset that loss. Workers have lost more than 20% of their purchasing power since the December, 1994, peso devaluation. Private forecasts expect prices to rise an additional 30% in 1996.

Officials are counting on strong exports to achieve the government's 3% growth target for all of 1996. Early data show that exports grew 28% in January from a year ago. That's in line with last year's 29% spurt, which made up for some of 1995's 16% estimated drop in domestic demand. The January trade figures also show a 16% rise in imports of raw materials and components, a sign that industry is planning to lift output

Rising inflation complicates the outlook. The peso, now stable at about 7.5 to the dollar, will likely weaken this year, and the Bank c Mexico will have to keep monetary policy tight. That may prolong the banking crisis by limitin credit as banks struggle to bring past-due loans under control. Onl the flow of foreign funds into financial markets will lower interest rates enough to spark interna investment. But that won't come until investors are sure of the recovery's viability. For 1996, Mexico's exports will be about the onl bright spot in a fragile economy.

By Elisabeth Malki in Mexico Cit

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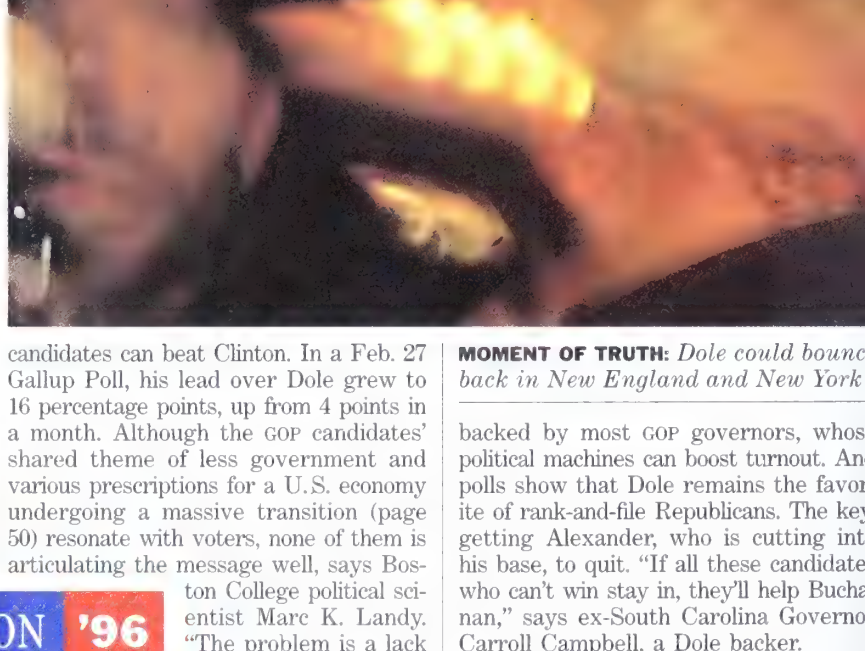
PRIMARIES

WHAT ABOUT BOB?

The GOP Establishment is terrified by the prospect of Dole's collapse



MOMENT OF TRUTH: *Dole could bounc back in New England and New York*

Plagued by widening internal fissures and a group of battered candidates who refuse to fade away, the Republican Presidential primary saga is turning into a horror classic: *The Undead.*

In one week, publisher Steve Forbes has gone from politically moribund to resurrected, thanks to wins in Delaware on Feb. 24 and in Arizona on Feb. 27. One week, populist Pat Buchanan is slashing his way to contention in New Hampshire, then he stumbles in Marlboro Country, losing Arizona to Forbes. Fractured front-runner Bob Dole, reeling after a string of early losses, suddenly springs back to life in the Dakotas—and positions himself for a comeback on Mar. 2 in South Carolina. Meanwhile, former Tennessee Governor Lamar Alexander hangs on.

In case everyone had forgotten, the GOP race was supposed to be nearly over by now. Party leaders engineered the process to cram most key primaries and caucuses into February and March. Front-loading was supposed to favor Establishment hero Dole. Instead, the struggle has become a marathon that will hurt the eventual nominee's chances against President Clinton this fall. Some party strategists are even whispering about a brokered convention, a sight Republicans haven't beheld since 1952.

SUICIDE? That's a long shot, but there's no denying that the family feud is damaging the party. Moderates are fighting conservatives, libertarians are battling Christian fundamentalists, and country clubbers are snubbing Buchanan's blue-collar hordes. "We're seeing the suicidal side of the party coming out," says University of Virginia political scientist Larry J. Sabato. "Republicans are well down the road to disaster."

The biggest loser from the internecine warfare is the GOP Establishment. Dole, the Old Guard's standard-bearer, may yet prevail. But he has revealed such profound weaknesses as a candidate that no amount of reconstructive surgery may get him in shape for the general election. "If Bob Dole is the nominee, Clinton will eat him alive," frets Thomas N. Edmonds, a GOP media consultant.

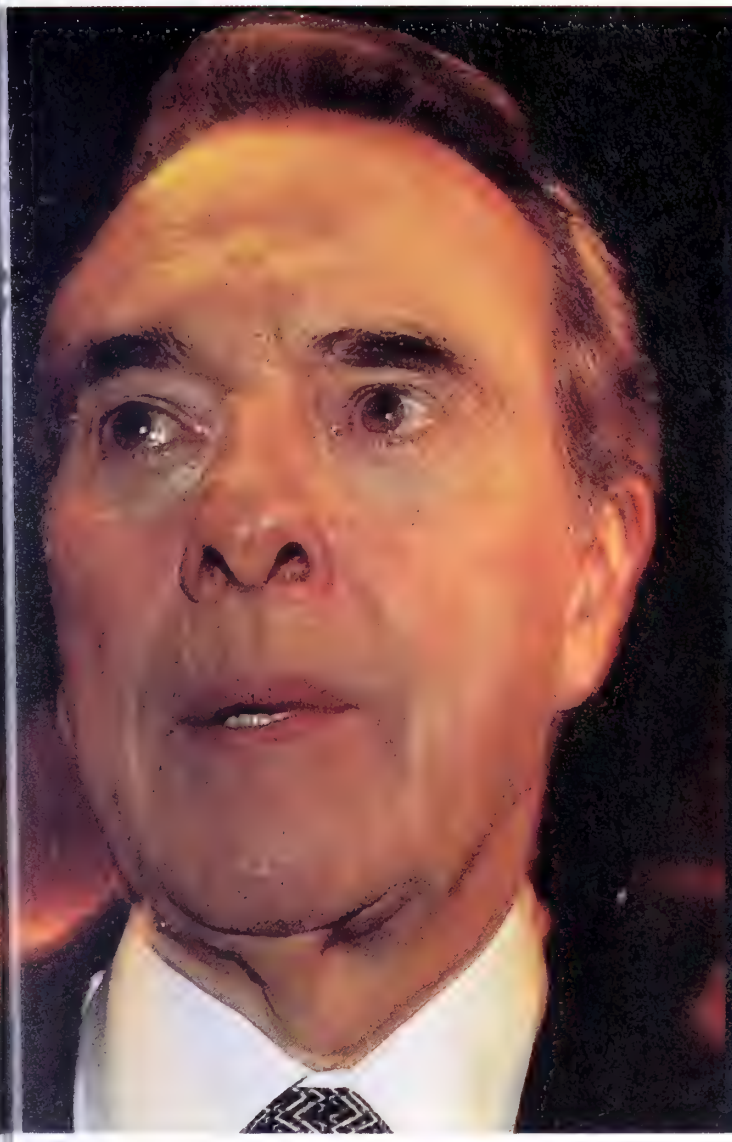
ELECTION '96

Although Dole's rivals should be heartened by his woes, they have little to crow about. A negative ad blitz has exposed the candidates' soft spots, from Forbes's Daddy Warbucks strategy to Alexander's questionable Tennessee business deals to Buchanan's fringe ideas. The result: Exit polls show nearly half of GOP primary voters think none of their candidates can beat Clinton. In a Feb. 27 Gallup Poll, his lead over Dole grew to 16 percentage points, up from 4 points in a month. Although the GOP candidates' shared theme of less government and various prescriptions for a U.S. economy undergoing a massive transition (page 50) resonate with voters, none of them is articulating the message well, says Boston College political scientist Marc K. Landy. "The problem is a lack of leadership more than anything else."

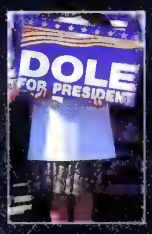
For now, Republicans have little time to worry about Clinton. From Mar. 2 to Mar. 12, primaries will be held in 16 states, with 700 delegates—35% of the total—up for grabs. These 10 days could reshuffle the GOP field again. Here's how each candidate hopes to win:

DOLE: The Kansan still has the organization to win the nomination. He's backed by most GOP governors, whos political machines can boost turnout. An polls show that Dole remains the favor ite of rank-and-file Republicans. The key getting Alexander, who is cutting int his base, to quit. "If all these candidate who can't win stay in, they'll help Bucha nan," says ex-South Carolina Governo Carroll Campbell, a Dole backer.

Dole needs to fend off Forbes in New York on Mar. 7 and then capture Flori da and Texas on Super Tuesday fiv days later. That would give him mo mentum in the Mar. 19 primaries in th Midwest. If all goes according to plar Dole could wrap up the nomination i California on Mar. 26. One problem Having spent an estimated $30 millio through February, Dole may hit his $3 million primary spending cap by Supe



Who Brings What to the Party



★ BOB DOLE
STRENGTHS: Strong organization in key primary states in New England (Mar. 5) and in New York (Mar. 7); positions acceptable to most Republicans.
WEAKNESSES: Lackluster campaigner; faces money crunch in expensive media markets, possibly starting with New York.

★ STEVE FORBES
STRENGTHS: Reaganesque message of economic optimism; won in Arizona and Delaware; self-financed outsider.
WEAKNESSES: Wooden; lacks political experience; may have trouble winning votes in Georgia on Mar. 5 and five other Southern states on Mar. 12.

★ PAT BUCHANAN
STRENGTHS: Charisma; won New Hampshire and was second in Iowa; connects with hard-core GOP conservatives and blue-collar Democrats.
WEAKNESSES: Extremist rep will hurt in New England and New York; viewed as weakest against Clinton.

★ LAMAR ALEXANDER
STRENGTHS: A younger Bob Dole; may be stronger than expected in his native South; matches up well against Clinton.
WEAKNESSES: Limited grassroots organizations in key states; cash crisis may force him out before important Mar. 12 Southern primaries.

esday, which would limit his ability to y TV spots in remaining megastates.

RBES: There's good reason the milnaire publisher is humming *I Love w York*. Dole's Empire State allies ed to make it all but impossible for ıer candidates to get on the primary lot. But Forbes triumphed over the ty bosses in court, and he's hoping win again at the polls. Although Dole the support of Senator Alfonse M. Amato and Governor George Pataki, rbes has his checkbook. He'll rely on a tly media blitz that trumpets his optistic economic message and his hostility "the Washington political culture."

If he upsets Dole in New York, rbes figures the bump will help him ock off the Kansas candidate in the lwest. Then Forbes gets his dream tchup: a showdown with Buchanan California's winner-take-all contest, h 163 delegates at stake.

BUCHANAN: The strategy here is to count on a continued splintering of the GOP field, which would allow Buchanan to pile up delegates. His main hope is to sweep the South, where Christian conservatives hold sway. A key test will be Georgia on Mar. 5. The big prize comes a week later in Texas, where the withdrawal of home-state Senator Phil Gramm from the race has opened up a big bloc of delegates. Buchanan also is counting on blue-collar economic anxieties to produce upsets in New England and the Midwest.

ALEXANDER: Although he hasn't managed to finish better than third anywhere and is running out of cash, the "new ideas" Tennessean still dreams of inheriting the center if Dole collapses. Alexander "needs to become the alternative to Buchanan," says campaign pollster Whit Ayres. How? Alexander's scenario has him crippling Dole with wins in Georgia and Florida, besting Forbes in the Midwest, and then snaring California. Party pros say: Dream on.

Of course, no party can tolerate a four-way slugfest like this for long. The trouble for Dole and the Establishment is that, Alexander aside, three of the four combatants seem determined to go the distance. Buchanan's effort is a low-overhead guerrilla campaign. Forbes is capable of spending upwards of $60 million, at his current clip. And Dole, running his last-chance Presidential campaign, won't give up easily. "The danger," says GOP pollster Frank I. Luntz, "is that the candidates chew up and then spit each other out, leaving the party in pieces." The only contender likely to be clapping after this show ends: the Arkansan in the White House.

By Richard S. Dunham in Columbia, S.C., with Lee Walczak in Mesa, Ariz., and Susan B. Garland in Washington

(CLOCKWISE FROM FAR RIGHT) PHOTOGRAPHS BY NINA BERMAN/SIPA (2); MICHAEL SCHWARZ (2)

THE ELECTORATE

SOUTHERN DISCOMFORT

Buchanan's populism resonates with South Carolina's workers

There's the Chamber of Commerce version of South Carolina, and then there's the version that Brent Little sees as he tours the state repairing the air-conditioning at textile plants. The Chamber spouts glossy statistics about record economic growth and foreign investment. But just last summer, Little saw four textile mills on his route close down—and more shutdowns loom. "Everywhere you go, everybody's either running slow or scared they're going to shut down," says Little. "We pay politicians loads of money, and they just get us deeper in trouble."

Little is based in Camden, S. C., pop. 7,000, a microcosm of the state as it prepared to vote in its Mar. 2 GOP primary. There are new foreign-owned companies. There is old money in the horse country north of town. There's a poor African-American underclass.

TOUGH TALK. Most important in this election season, there's a feeling in Camden that except for Pat Buchanan, politicians don't really know what's good for the town, the state, or the country. Sure, job creation in South Carolina is at a 30-year high, and new jobs are paying a third more than the old ones. But at Camden's DuPont Co. textile plant, employment is just a third of its peak level, and a new round of layoffs is expected this month. "We're losing jobs now. The textile people are catching it, and nobody has been listening to them," says Philip Minges Jr., Camden's mayor.

That could be bad news for Bob Dole. Dole has lined up Senator Strom Thurmond, Governor David M. Beasley, and former Governor Carroll A. Campbell Jr., as well as fundamentalist Christian leaders, behind his campaign. But his message rings hollow in Camden. "Dole is wishy-washy. He doesn't say what he's for," gripes Claude H. Boykin, who repairs Studebaker cars in a shop his father founded. "He's got a background of backing down."

ELECTION '96

Steve Forbes is also hard for many to swallow. He hasn't campaigned i the state, and people don't like his neg ative ads. And the wealthy publisher privileged background and overwheln ing focus on a flat tax leave peopl cold. "He's a one-issue candidate, an his one issue I have reservatior about," says Dale Thiel, owner of Da Thiel Stables. JoAnn Harris, owner the Maid of Honor cleaning servic agrees. "I thought about Steve Forbe to begin with," she says. "But I'm fo someone who's for the mainstrea American. I'm not wealthy, and I'm n dirt poor, and I war someone who knows wha that's like."

Enter Buchanan. These days, he's th talk of Camden. He mixes his message of protectionism, nativism, and extrem anti-abortionism with made-to-orde South Carolin riffs supportin all-male enrol ment at the Ci adel militar school and th state's right t fly the Confede ate flag. "Buch nan is stealin the class wa fare thing fro the Democrats marvels Thiel.

Buchanan populist rallyin cries work we with many vo ers such as th workers at th DuPont plan But some say Buchanan too extreme. "He's wa out there. I couldn't vot for him," says Shirlee Mills, a 27-year veteran the DuPont plant. At th nearby AlliedSignal In plant, maintenance me chanic Jerry Bragg unde stands that protectionis is flawed.

Still, Bragg find Buchanan's passion win ning. "Pat may be a litt extreme, but at least h says what he believes i instead of what peopl want to hear," says Brag So far, Buchanan's mes sage could be a winner i Camden—and towns lik it all across the South.

By David Greising i Camden, S. C.

What Camden Has to Say

"[Forbes] is a one-issue candidate, and his one issue I have reservations about."

DALE THIEL
Stable owner

"[Buchanan] is way out there. I couldn't vote for him."

SHIRLEE MILLS
Factory worker (with her husband, Joe)

"We're losing jobs now. The textile people are catching it..."

PHILIP MINGES JR.
Mayor

OFF GUARD: *The rate spike rattled investors, but a slow economy and low inflation are positive for the bond market*

IARKETS

TEMPORARY INSANITY N BONDS

'he sell-off may be scary, but it's not the birth of a bear market

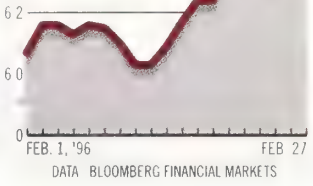
Wall Street hadn't seen anything like it since the bond market bloodbath of two years ago. In ıly two weeks, prices plunged nearly 50 on each $1,000 bond, driving the eld on the benchmark 30-year U.S. ·easury bond from 6.03% to 6.47%. We had thought the next general ove in interest rates would be up," ys Ian A. MacKinnon, who is respon- ble for the management of $70 bil- ɔn in fixed-income funds at Vanguard roup. "But we were not prepared for e magnitude or the suddenness of e move."

Just about every major player in the ɔnd market would agree with MacKin- ɔn. Trouble is, that's what they said early 1994, at the beginning of what rned out to be the worst year for ɔnds in six decades. That's why the ɛest spike in rates has sent shivers wn the spines of many bond investors d thrown cold water on the super- ated stock market. But if the first ·o months of 1994 and 1996 look un- mfortably alike, rest assured: The sell- ' is not the start of a new bear mar- t. "We're still on the long-term secular th of disinflation," says William H. ·oss, the chief investment officer for 5 billion in fixed-income accounts at ıco Advisors L.P. and a bond-market ll. "Nothing's changed in recent weeks at would alter that."

A short-term drop in bond prices should not have come as a total surprise. Bonds had been on one hell of a roll, with prices climbing 35% and rates falling from 8.2% to 6% in a little more than a year without a significant correction along the way.

Part of that rise came from hedge funds. These private partnerships, which are generally run for the benefit of high-net-worth individuals, were buying U.S. Treasuries on money borrowed at rock-bottom interest rates in Japan. That was a sophisticated investment scheme that depended on Japanese interest rates staying low, the dollar remaining strong, and bonds at least holding their prices. But in recent weeks, Japanese rates have risen and the dollar has weakened. Particularly hard hit are the funds that make big investment bets on macroeconomic trends in bonds and currencies. "There are some 'macro' funds with as much as 25% loss in February," says Steven Lonsdorf, executive vice-president of Van Hedge Fund Advisors Inc. George Soros' Quantum Fund, the largest of the macro funds, is down roughly 8% for February. Tiger Management's funds were even for the month.

BUMPING UP



DATA BLOOMBERG FINANCIAL MARKETS

Worried about the possibility of further dumping by hedge funds, many other bond investors have been apprehensive about stepping up and buying. "A 6% yield offers no protection against adverse developments," warns John P. Lipsky, chief economist at Salomon Brothers. "So any bad news hits the market pretty hard."

The Presidential election hasn't helped matters. Until recently, Wall Street assumed that Senator Bob Dole was a shoo-in for the Republican Presidential nomination and that there would soon be a balanced-budget accord—the Holy Grail of the bond market crowd. But now Dole, the candidate who was the strongest advocate of a balanced budget, is weakened, and the budget is a nonissue with his chief challengers. Publisher Steve Forbes espouses a flat tax and supply-side economics, and right-wing firebrand Pat Buchanan rants and rails against Wall Street and big business.

BUYING OPPORTUNITY. The economy is also perplexing some investors. Federal Reserve Chairman Alan Greenspan's delphic testimony before Congress on Feb. 20 and 21 led many to conclude that the next Fed easing—perhaps at the March meeting—will be its last, leaving the rate at which banks lend to one another overnight around 5%. The market had been hoping for subsequent cuts, so many disappointed investors sold out.

Others, though, think the economy is unlikely to show much strength, and could even be heading toward a recession. That's good news for bonds. "The amount of borrowing has been going down, banks are tightening credit standards, and delinquencies for credit cards and mortgages are going up," says John Capodici, a senior bond manager at Glickenhaus & Co. "That's all positive for the bond market."

So is the inflation outlook. The January producer price index came in at 0.3%, lower than many economists had forecast, and the consumer price index of 0.4% shows inflation is still in check. If that kind of favorable inflation news continues, investors could start buying again in spite of the political turmoil. Indeed, the current bond market woes may turn out like most corrections—an excellent buying opportunity.

By Jeffrey M. Laderman in New York

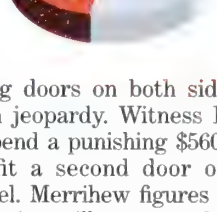
PHOTOGRAPH BY MELENKE SASA JERAPIC BY A. BERT MENA BW

Chrysler

Last year, it came out with a line of roomy vans with sliding doors on both sides that are the hottest sellers in the market.

PRICE RANGE
$17,185 to $30,755

MARKET SHARE



AUTOS

AN EMBARRASSMENT OF MINIVANS

New models keep rolling into a market that's nearly saturated

General Motors Corp. has barely been a player in minivans, one of Detroit's hottest markets. Of the 1.2 million minivans sold annually, Chrysler Corp. has been ringing up the lion's share while turning its boxy Cub Scout-haulers into increasingly sophisticated vehicles. Ford Motor Co. joined the fray in earnest a few years back with the aerodynamic Ford Windstar and the sleek Mercury Villager. But GM has lagged, reaping a measly 16% market share with its needle-nosed APV minivans, often derided as "dustbusters" or "anteaters."

That's about to change. On Mar. 5, GM will unveil the first of its new minivans at the Geneva Motor Show. The new vans are GM's bid to become a contender in the $28 billion minivan market for the first time. The new Chevrolet Venture, Pontiac Trans Sport, and Oldsmobile Silhouette will offer lots of amenities and more conventional styling.

TOOTH AND CLAW. "It will be a much better vehicle than the old anteater," says Chrysler President Robert A. Lutz. "I have no doubt the new GM minivan will be much more competitive." DRI/McGraw-Hill analyst Lincoln Merrihew sees General Motors gaining about six points of market share by 1997.

Such tooth-and-claw market-share battling is a sign of a new development: The minivan market is hitting the saturation point. Along with GM, the Japanese will be jumping in with new models. And as the fighting gets fearsome, any company without a key new feature—such as sliding doors on both sides of the van—is in jeopardy. Witness Ford, which must spend a punishing $560 million to retrofit a second door on its Windstar model. Merrihew figures nearly all of GM's gains will come at the expense of Ford. Lehman Brothers analyst Joseph S. Phillippi estimates that Ford turns a profit of about $2,500 on each Windstar it sells—and he expects the new GM entries to cut into that.

The pressure on weak players will only intensify with time. Chrysler, the undisputed minivan leader, pioneered double sliding doors on its latest models, which are a smash hit. It enjoys gross margins averaging $7,000 per minivan, well above the industry average of $3,000, says Phillippi. Sales of fully loaded top-of-the-line Town & Country vans, which sell for upwards of $30,000 and boast margins approaching $10,000, are suddenly spurting. Analysts also expect GM to make money on minivans when its new models arrive.

COSTLY MISCUE. Meanwhile, Japanese carmakers will start turning out made-in-America models next year. They'll have double doors, too, and are widely expected to be more price-competitive than current Japanese minivans, which start at about $24,000. Toyota Motor Corp. will make a minivan, based on its Camry sedan, at its Georgetown (Ky.) plant for sale in 1997. Honda Motor Corp. will follow in 1999 with a minivan from its Alliston (Ont.) factory.

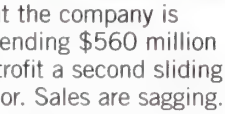
In such a competitive environment, Ford is showing how costly a minivan miscue can be these days. Despite its $560 million investment, it will not have a se

Ford

Its main model, the Windstar, has neat looks, but the company is spending $560 million to retrofit a second sliding door. Sales are sagging.

PRICE RANGE
$20,170 to $27,845

MARKET SHARE

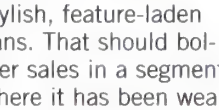


GM

Next fall, it plans to bring out a line of stylish, feature-laden vans. That should bolster sales in a segment where it has been weak.

PRICE RANGE
$19,939 to $26,020

MARKET SHARE



TOP PHOTOGRAPH BY JEFF JACKSON; GRAPH BY [illegible]

ınd sliding door ready for two and a ıalf more years. The reason: it must 'eengineer the entire side of its van, 'einforcing the body structure, moving he fuel system, and rerouting the air onditioning, then recertifying it with ederal crash tests. Ross H. Roberts, 'ord Div. general manager, maintains hat the company can't slight other fuure models to rush the Windstar redo ny sooner. "We have so much product ı the pipeline that is so important to he Ford Motor Co. that to just drop verything and go and do this is not in ur best interest," says Roberts.

For the next few years, Ford will mp along with a three-door Windstar porting a $100 million interim fix—an nlarged driver's door. Meanwhile, anaɜst Christopher W. Cedergren of AuɔPacific Inc. in Santa Ana, Calif., preicts that to stay in the game, Ford ill have to increase the $1,000 rebate it ffers on Windstars. Though Roberts enies the vans are losing out because f the door wars, Windstar has already ɔst 2.5 points of market share, or ɔughly half its peak total, reached last ɔring just before the new Chryslers rrived. "Chrysler really caught them at-footed on that," marvels a competiɔr. "They're letting Chrysler eat their ınch."

O THREAT. Ford's woes could give GM s big chance. "Ford is handicapped," ıys Schroder Wertheim & Co. analyst ɔhn Casesa. "That leaves a pretty big ɔle in the market for GM." The auto ıant isn't talking about its new miniıns yet. However, analysts describe ıem as solid, fairly generic minivans—ɔ threat to Chrysler's market domiıance but a huge improvement over M's current crop of plastic-bodied APV fferings. They'll offer the only motored sliding rear door on the passenger de—an option already popular on its ıisting minivans. GM will be cranking ıt minivans in its Doraville (Ga.) facɔry by this summer, but they won't be idely available until early next year.

General Motors has avoided Ford's te mostly by sheer luck. Because it as planning a right-hand-drive version its new van to sell in Britain, it alɜady had dual sliding doors on the ɜawing boards when U. S. consumers arted clamoring for the feature. So it ill is feeling pretty good about its inivan offerings for a change. "I prect that it will be a sell-out," says Jer' Seiner, a Salt Lake City Chevrolet ɜaler who thinks GM has finally got it ght. "Every dog has its day," says ɜiner. For GM, that day could be shortıed by intensifying competition—but least it's here.

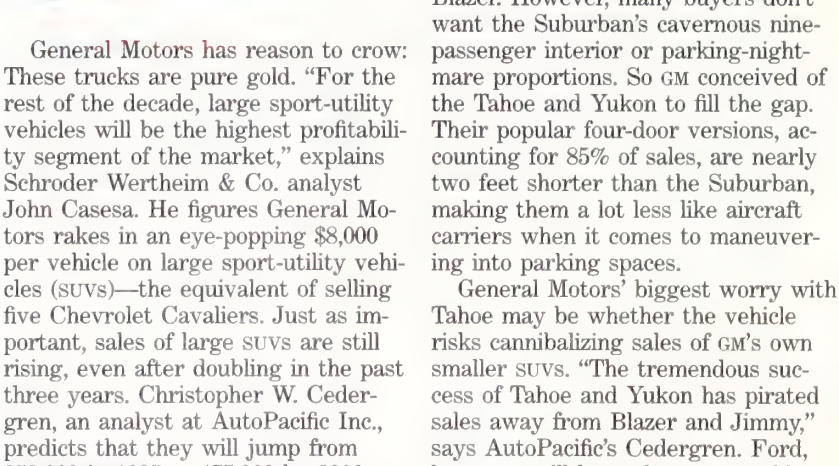
By Kathleen Kerwin, with Keith aughton, in Detroit

THOSE INCREDIBLE HULKS FROM GENERAL MOTORS

General Motors Corp. has missed out on a lot of opportunities over the years. But to fans of jumbo sport-utility vehicles, its Chevy Tahoe and GMC Yukon and the even larger Suburban are the best—and just about only—models around. "There's nobody else in this category," brags Dennis J. O'Donnell, brand manager for the GMC Yukon and Suburban. "We're in the catbird seat."

WHITE GOLD: *One Tahoe sale equals five Cavaliers*

Really Truckin'



General Motors has reason to crow: These trucks are pure gold. "For the rest of the decade, large sport-utility vehicles will be the highest profitability segment of the market," explains Schroder Wertheim & Co. analyst John Casesa. He figures General Motors rakes in an eye-popping $8,000 per vehicle on large sport-utility vehicles (SUVs)—the equivalent of selling five Chevrolet Cavaliers. Just as important, sales of large SUVs are still rising, even after doubling in the past three years. Christopher W. Cedergren, an analyst at AutoPacific Inc., predicts that they will jump from 253,000 in 1995 to 475,000 by 2000.

LEATHER SEATS. Naturally, the competition isn't going to leave General Motors alone in this profit paradise. This fall, Ford Motor Co. will introduce the Expedition, a brawny, nine-passenger sport utility based on Dearborn's popular all-new F-150 pickup truck. "The Ford Expedition is going to be strong competition to Tahoe and Yukon," predicts Lehman Brothers Inc. analyst Joseph S. Phillippi. The Ford will sport dual air bags, forcing GM to follow suit this fall.

GM forged a big lead when it introduced the all-new Tahoe and Yukon last year. These beefy four-wheel-drive safari wagons can comfortably seat five or six, with plenty of cargo space. And Tahoe offers such goodies as leather seats, a CD player, and cup holders galore.

IGNORED SLOT. General Motors' other big hit, the gargantuan Suburban, was slumbering until a few years back, when the sport-utility craze gave it sudden cachet. When they talked to customers, General Motors' market planners realized there was a huge demand in this largely ignored slot. Turns out there are lots of folks who want to tow loads too heavy for a compact SUV such as the Chevy Blazer. However, many buyers don't want the Suburban's cavernous nine-passenger interior or parking-nightmare proportions. So GM conceived of the Tahoe and Yukon to fill the gap. Their popular four-door versions, accounting for 85% of sales, are nearly two feet shorter than the Suburban, making them a lot less like aircraft carriers when it comes to maneuvering into parking spaces.

General Motors' biggest worry with Tahoe may be whether the vehicle risks cannibalizing sales of GM's own smaller SUVs. "The tremendous success of Tahoe and Yukon has pirated sales away from Blazer and Jimmy," says AutoPacific's Cedergren. Ford, however, will have the same problem. Ford and General Motors managers argue that that risk is slight compared to the opportunity for fast-growing sales. And for GM, being king of the hill in a strong, lucrative chunk of the market is sweet indeed.

By Kathleen Kerwin, with Keith Naughton in Detroit

TELECOMMUNICATIONS

U S WEST'S GAUNTLET WON'T JUST LIE THERE

Rivals will be scrambling for their own opportunities

It was only a matter of time, once telecommunications reform was passed, before companies started breaching the Berlin Wall that has kept them from jointly offering cable TV and local and long-distance phone service. But U S West Inc. waited a mere 19 days after President Clinton signed the historic Telecommunications Act of 1996. On Feb. 27, the Denver-based cowboy of the seven Baby Bells announced it will acquire Continental Cablevision Inc., the nation's third-largest cable-TV operator, for $10.8 billion—and in three years hopes to use those cable networks to offer local phone service across the nation.

U S West, which provides local phone service in 14 Western states, has long been among the most adventurous of the Bells. It already holds a 25% stake in Time Warner Entertainment and its 8 million cable subscribers, owns two Atlanta cable networks, and is a major cable operator in Britain. The Continental deal puts it front and center in the converging world of telecom and video.

Not that rivals wouldn't like the pole position. Continental Chairman Amos B. Hostetter Jr. says he spoke to every one of the Bells about a merger before settling on U S West. U S West Media Group President Charles M. Lillis says he knows that "a number of the other Bells believe that cable is a good idea, but . . . until this point, there hasn't been much opportunity."

In fact, few other local phone companies could have made the Continental deal—they are barred from owning cable networks in their local calling regions. Boston-based Continental has only 300,000 subscribers in U S West's sparsely populated region, so there is little overlap. But the other Bells must find some way to counteract U S West. Lillis says he plans to offer local phone service in Atlanta over his cable networks there by yearend, and Continental's networks will be upgraded to offer telephone service within three years. That puts an experienced local-calling competitor smack in the middle of the regions of BellSouth, Bell Atlantic, Nynex, Ameritech, and Pacific Telesis.

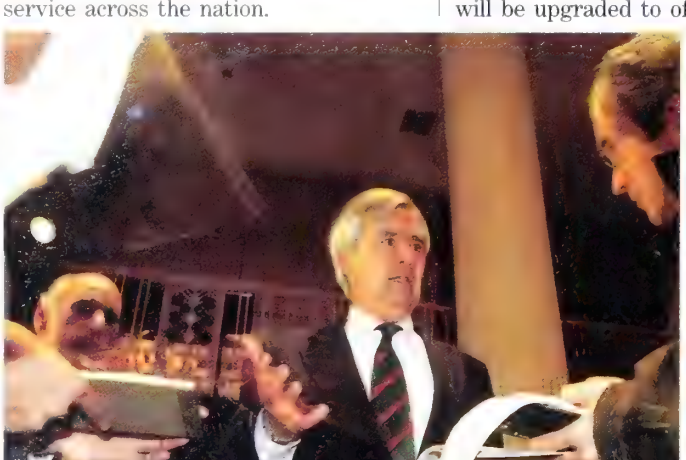
These companies are just as eager to offer customers a package of video and telephony. Bell Atlantic is running trials of its video-over-phone lines system to several thousand customers in Maryland and New Jersey, and Bell South is investing heavily in broadband technology that will deliver both phone and TV signals. PacTel and Nynex have bought stakes in wireless cable companies. PacTel says that it is not "currently interested" in a cable venture but has held talks with cable operators in the past. "There is no reason we should i doubling the pipe to the home," sa PacTel Chairman Philip J. Quigley.

All these efforts are driven by t same bet: That consumers will want order local telephone services from company that can offer deals on lon distance, wireless, and cable TV. Sin October, 1994, when long-distance carri Sprint Corp. formed a partnership wi cable operators Tele-Communicatior Cox Communications, and Comcast jointly offer cable, local calling, long-d tance, and wireless services under t Sprint name, the local phone compani have plotted to assemble a similar pac age. Now they're free to do so and ha money to burn.

TOP DOLLAR. U S West proved that. is paying about $2,100 for every Con nental subscriber—11.1 times Contine tal's projected 1996 cash flow, by far t richest cable acquisition ever. Bell A lantic Corp. offered just $900 per su scriber in its failed 1994 bid for TCI. A the buyout is only the start of the ca outlays U S West is facing. The compar wants to upgrade its cable properties deliver video, voice, and data over o wire at superhigh speeds. That cou cost $800 or more per subscriber.

The big question now: Will teleco reform end up consolidating power the hands of a few big companies? "It very unfortunate, but I think there is risk to that effect," says Sprint Chai man William T. Esrey. Even so, Esre admits he, too, would do a deal wit U S West—or another erstwhile riva "We don't compete with U S West any particular [cable] market, so w may end up cooperating in the future- or competing. Who knows?" Sounds lil more walls will be breached this year

By Catherine Arnst in New Yor with Peter Burrows in San Francisc



CAREFUL SHOPPER Continental's Hostetter spoke to all the Bells before choosing U S West

East Meets West

U S WEST MEDIA GROUP

PHONE SUBSCRIBERS 25 million.

RANGE 14 states from Washington to New Mexico.

PARTNERSHIPS Owns 25.51% of Time Warner Entertainment. Has stakes in cable systems in Britain and Japan and a partnership with AirTouch Communications.

CONTINENTAL CABLEVISION

CABLE SUBSCRIBERS 4.2 million; No. 3 in the U.S.

RANGE New England, California, Chicago, Michigan, Ohio, Florida.

PARTNERSHIPS A 10% stake in PrimeStar, the No. 2 direct-broadcast satellite service. Part owner of Teleport Communications, an alternative local phone company.

DATA: BUSINESS WEEK

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TELECOMMUNICATIONS

DIAL 'A' FOR AGGRAVATION

Competition may not improve the Baby Bells' uneven service

Joe Turk still hasn't forgiven Ameritech Corp., his local phone company. Last fall, a lightning storm knocked out Turk's telephone in West Allis, a Milwaukee suburb—and more than a week went by before service was restored. Being out of touch was especially worrisome for the retired 63-year-old maintenance supervisor because of his heart condition. Now he can't wait to ditch Ameritech for another local telephone company. "No questions asked, I'm gone," he says. "Whoever it is—regardless of the cost—I'm switching."

Turk and thousands of disgruntled consumers like him are presenting a daunting problem for the Baby Bells. Deregulation will force local telephone companies to slash prices in order to keep a hold on their once captive customers. But at the same time, the companies can't neglect service. And there are disturbing signs that most of the Baby Bells are already coming up short.

TAKING IT ON THE CHIN. In Wisconsin, for example, complaints to regulators against Ameritech nearly doubled last year. Service complaints are also up at U S West, Nynex, and Pacific Telesis Group. And with customers griping, the Bells are taking it on the chin from state regulators. In January, New York's Public Service Commission ordered Nynex Corp. to rebate $50 million to 5 million consumers. Idaho is fining U S West Inc. for taking too long to fix telephone outages. And in February, Wisconsin's Public Service Commission filed a civil suit against Ameritech over low-quality and unreliable service. "They just haven't been up to our standards," says Scot Cullen, administrator of the Wisconsin commission's telecommunications division.

The most common gripes? Long waits to repair problems, install new phones, or reach a live person in the service center. In Westport, Calif., for example, Albert J. Miller's phone went out for 16 days after a December storm. He spent four frustrating days driving five miles into town to use a pay phone, only to get busy signals or be disconnected, before he was finally able to tell someone at PacTel about his problem. The whole incident left the patent lawyer angry and disgusted. "It was a comedy of misinformation and disinterest on the part of Pacific Bell," Miller says.

At his Seattle-based truck-leasing company, Robert Pontius has been waiting five months for U S West to install a second line. As a result, he has ha trouble communicating with customer and employees in the field. "Ther should be a choice," he fumes.

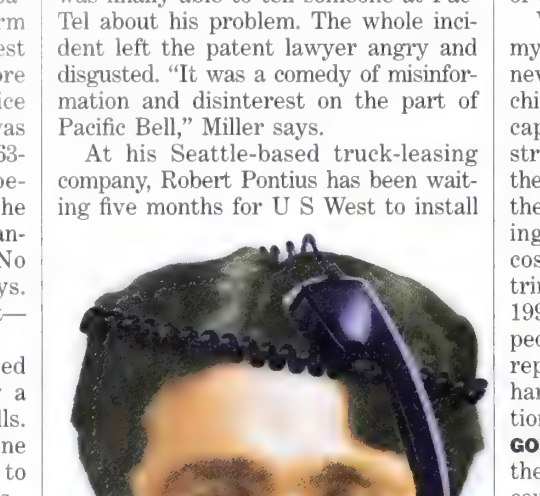
Regulators say these are far fro isolated cases. For routine repairs, Wis consin wants Ameritech to restore se vice to consumers within 24 hours 95 of the time. Last August, the rate fell t 40%. U S West is doing even wors fixing problems in 24 hours only 30 of the time in Minnesota.

What has caused service to slip is n mystery. Customers are rushing to ad new lines for home offices and fax ma chines, taxing many Bells' installatio capabilities. The companies are als struggling to handle huge increases i the number of phone lines in use. Yet a the same time, the Baby Bells are lay ing off thousands of workers to cu costs. U S West, for example, ha trimmed its workforce by 4,400 sinc 1993. "There have been cases wher people cut too fast and damaged the reputations," admits Randall K. Stra han, vice-president for service opera tions at Pacific Bell.

GONE FOREVER. The Baby Bells kno they have a serious problem—one tha could lead to massive customer defe tions. "We can't tolerate [poor se vice]," says Richard C. Notebaer chairman and chief executive Ameritech. "We have to be respo sive." Some of the phone companies a ready claim to be getting better. Fo example, industry insiders say U West neglected its phone business as rushed into more exciting venture such as cable TV. But now the com pany is building up its network ca pacity and hiring more employee for customer service. "We have t provide better service than anyon else," said Thomas Bystrzycki, exe utive vice-president for operatior and technology.

Still, some experts suggest tha gold-plated service, which phone cus tomers took for granted back in th era of local monopolies, is gone fo ever—and people had just better ge used to it. "We don't need seve day-a-week, 24-hour-a-day custome repair service," says Dan Mille chairman of the Illinois Commerc Commission. So Joe Turk and othe disgruntled customers may be in fo a nasty surprise. Tomorrow's com petitive local telephone rates are u likely to come with yesterday's re carpet service.

By Peter Elstrom in Chicag with Peter Burrows in Sa Francisco



Bad Connection

AMERITECH A jump in complaints about laggardly phone repairs led to a Feb. 19 suit by Wisconsin regulators. Illinois regulators will also fine the company $4 million.

U S WEST Idaho is fining it $7,500 per month because of a recent decline in customer service.

NYNEX New York ordered a $50 million refund to 5 million customers after problems with slow repair and installation.

PACIFIC TELESIS Service complaints in California have more than doubled in five years, to 1,854 in 1995.

DATA: STATES, BUSINESS WEEK

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STRATEGIES

LORD OF THE CYBERPRESS

Thomson charges online with his West Publishing purchase

Although Kenneth R. Thomson is Canada's richest man, with a fortune of more than $5 billion, he has long had a reputation as a tightwad. The chairman of Thomson Corp. "acts and looks as if he were a small-town bank teller living near the poverty line," writes biographer Peter C. Newman. Thomson has been known to stock up on hamburger buns when they're on sale, Newman adds. So it's no wonder that jaws dropped when Thomson's company announced on Feb. 26 it would pay $3.4 billion for West Publishing Co., a specialist legal publisher. It was the most ever paid for such a specialty house.

NEW VIEW Thomson, who was once a dominant player on London's Fleet Street, has sold all his British papers

It's also the most dramatic move yet in Thomson's bold plan to remake an empire built on newspapers for the emerging electronic-information age. Over the past year, Thomson has sold 46 U. S. and Canadian papers and all of his British newspaper holdings for a total of $1 billion. That's a remarkable retreat for a man whose title—Lord Thomson of Fleet—reflects the dominant role he once played on London's Fleet Street, onetime hub of the British press.

NICHE MARKETS. Meanwhile, Thomson has been charging into electronic publishing by snapping up companies that provide specialized information for professionals such as doctors, lawyers, and librarians (chart). When the West acquisition is completed, such specialized publishing will account for more than half of Thomson's sales and 70% of its operating profit. In 1995, Thomson earned an estimated $450 million on sales of about $7 billion. The company's goal, says President W. Michael Brown, "is to become the world's foremost publisher" of such information.

So far, the strategy seems to be working. Most newspaper companies are offering online versions of their papers but making little money at it. In contrast, Thomson is targeting niche markets, where professionals are willing to pay a hefty premium. The company is one of the few that have figured out how to "make a lot of money from electronic publishing," says John Morton, a media analyst at New York brokerage Lynch, Jones & Ryan Inc.

West fits right into Thomson's new strategy. Although the privately owned company has been providing court-case reports and other primary legal documents since 1872, exploding online demand has made "the past three years our strongest ever," says West President Vance K. Opperman. Last year brought a record operating profit of $206 million on sales of $827 millio

But last fall, West, looking for mo resources to exploit electronic opport nities, put itself up for sale. "Thomso was clearly the best alternative," sa Opperman, partly because it already h an $800 million legal-publishing unit th analyzes primary documents provide by companies such as West.

Yet even its admirers worry th Thomson paid too much. Its $3.4 billi bid is more than twice the $1.5 billi that Anglo-Dutch publisher Reed Els vier PLC paid for rival Lexis/Nexis 1994, although Reed notes West is twi as profitable. And the deal pushes Thor son's ratio of debt to total capital fro 37% to 55%. Citing the "financial risk a sociated with [such] high leverage Toronto's Dominion Bond Rating Servi slashed Thomson's credit rating by thr notches, to A (low The deal "could cau some short-term ind gestion for Thomson warns Murray Gros ner, an analyst CIBC Wood Gund Thomson conced that interest charg on the $3.4 billi purchase will hu earnings this yea

But over time, "this transaction w stand up extremely well," says Thomso Chief Financial Officer Nigel R. Harriso

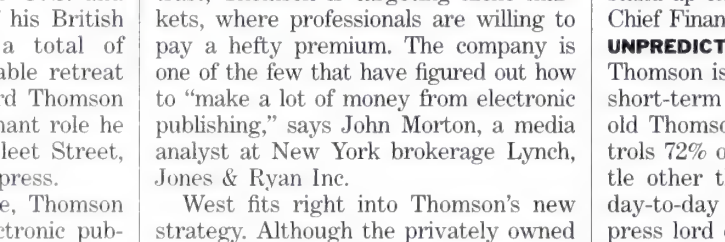
UNPREDICTABLE. In any case, Lo Thomson isn't a man to lose sleep ov short-term risks. Indeed, the 72-yea old Thomson, who with his family co trols 72% of the stock, thinks about li tle other than the long term—leavi day-to-day management to Brown. T press lord doesn't see many big oppo tunities ahead in the mature newsp per business. He's betting on the Info mation Revolution.

It's hardly a risk-free strategy. The specialized markets are far more unpr dictable and competitive than Thomson traditional bastions in travel and new papers. But Brown pr dicts the strategy w enable Thomson to e pand its revenues b 11% a year, making it $10 billion compan by 2000. Such growt would be the envy any newspaper publis er. Then again, that one reason Lord Thon son of Fleet is lookir far beyond Fleet Stree

By William Symonds in Toronto

GETTING SPECIALIZED

BREAKDOWN OF THOMSON'S SALES



TOTAL: $5.1 BILLION

TOTAL: $7.7 BILLION*

DATA: COMPANY REPORTS, BUSINESS WEEK ESTIMATES

*ASSUMING WEST PUBLISHING HAD BEEN PART OF THOMSON

Chicago Hong Kong Los Angeles Palm Springs San Francisco Washington, D.C. Maui

Vancouver Long Beach Seoul Tokyo St. Thomas Jamaica Denver Sydney Santo Domingo Düsseldorf Prague St. Petersburg

Atlanta St. Louis Scottsdale Springfield Baltimore Boston Battle Creek New York White Plains Cleveland Columbus Orlando

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EXECUTIVE SUITE

FALSE SPRING FOR SCOTTS

The lawn-care giant bets on the wrong CEO and game plan

A year ago, the 126-year-old Scotts Co., the sultan of sod, seemed set for a growth spurt. The Marysville (Ohio) maker of TurfBuilder and other products had an energetic new CEO, Theodore J. Host, a former Coca-Cola Co. marketing whiz. And through a $200 million stock swap, Scotts was merging with Stern's Miracle-Gro Products Inc., the plant-food king. As CEO Tadd C. Seitz, who remained board chairman, stepped aside, he predicted that Scotts would soon be a billion-dollar company.

Instead, Scotts has wilted. In late February, it made an embarrassing adjustment to earnings, dropping them from $25.1 million to $22.4 million on sales of $732.8 million. And on February 23, Host was forced to resign. Seitz, 54, was brought back in as CEO.

What went wrong? For Host, the troubles began as soon as he took the post. First, the Federal Trade Commission held up the merger with Miracle-Gro until Scotts sold off a fertilizer division. That cut into Scotts's expected bottom line. Then urea prices skyrocketed, adding costs. And the blistering Ohio heat wave in July and August turned fertilizer into lumps, gumming up production lines. Scotts wasn't able to meet demand during the key summer months.

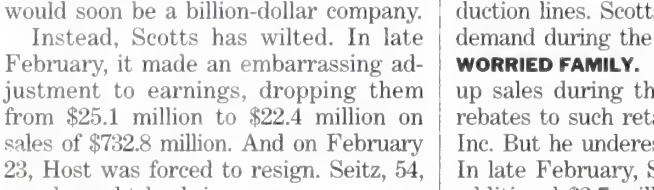
WORRIED FAMILY. Host tried to pump up sales during the winter by offering rebates to such retailers as Home Depot Inc. But he underestimated rebate costs. In late February, Scotts had to send an additional $2.7 million to retailers.

Meanwhile, the merger had turned the equivalent of 40% of Scotts voting stock to Miracle-Gro's own ers, principally the Hagedorn fan ily of Port Washington, N. Y. Use to higher margins, they objecte to the aggressive rebate progran By early '95, analysts say, th Hagedorns had seen enough. In statement, Horace Hagedorn, Mi acle-Gro's 80-year-old founder, we comed Seitz back as "a stabilizin force for the company."

The challenge now facing Seitz is t pull back from some of Host's feist marketing schemes while fixing the pr duction glitches. He must also hamme out a common vision with the Miracl Gro partners, who are wary of sacrifi ing profits for market share. It hel that Scotts has about 50% of the mark in most of its fertilizer, soil, and see lines. And Seitz, who first becam Scotts' CEO in 1983, has already starte on the problems. To avoid fertilize lumps, for instance, he is air-conditionin factories. He's also looking for a lon term successor. Now, he and his tea can only hope for a long, cool summe

By Stephen Baker in Pittsburg

BACK TO NORMAL: *The last grou ing season was a nightmare*



MOSCOW MARKET: *Russian fowl could get a leg up*

TRADE

YANKEE CHICKEN, GO HOME

Moscow has a beef about U.S. poultry standards

Russian citizens have been menaced by nuclear fallout and organized crime that makes Mafia doings look tame. But now the government has fingered a new enemy: American chickens. The Russians want to ban U.S. birds, claiming a risk of food poisoning from American chickens. The two nations are negotiating, but if an agreement isn't reached by Mar. 19, the Russians could permanently clip the wings of American poultry processors.

That raises a question: Are American birds really bad? Most U.S. food-safety experts think not.

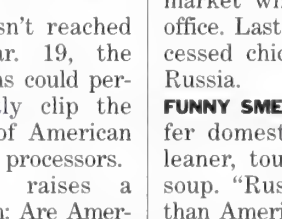
Sure, U.S. processors have long been criticized for lacing chickens with chemicals and hormones. And a 1995 U.S. Agriculture Dept. study estimates that Salmonella and Campylobacter in meat and poultry cause a shocking 4 million cases of illness and 3,000 deaths a year, a third of all U.S. food-poisoning deaths.

But Russian birds are certainly no cleaner. Once nicknamed "blue birds" because many looked as if they had died of the cold, they're generally sold in open-air markets. They're also scrawny by U.S. standards. Many Russian consumers snap up "Bus legs"—the nickname for the legs an thighs that began flooding Russia market when President Bush was i office. Last year, the U.S. shipped pr cessed chicken worth $517 million t Russia.

FUNNY SMELL. Still, many Russians pr fer domestic chickens. They say th leaner, tougher birds make a bette soup. "Russian chickens taste bette than American ones," says Elena Pre brezhenskaya, a Moscow sculpto "They're more natural. When you bro an American chicken, you can sme chemicals."

However, Ludmilla Grinyova, a coo for a Moscow dental clinic, concede that Russian sanitary standards are s low that Russia may b applying a double star dard: "If the governmen halts imports of U.S chicken, it's not due t consumer preference. Unless the two nation set aside their difference a lot fewer chickens wi get to the other side.

By Stephanie Ande son Forest in Dalla with Patricia Kranz i Moscow



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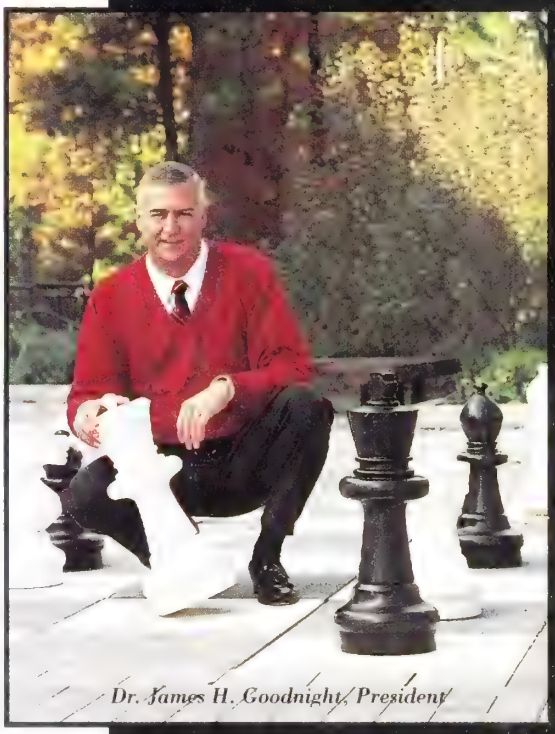

Dr. James H. Goodnight, President

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EDITED BY KELLEY HOLLAND

CUBA: BUSINESS WON'T SHY AWAY

RELATIONS BETWEEN THE U. S. and Cuba have hit a nadir in the wake of Cuba's Feb. 24 bombing of two civilian planes. President Bill Clinton immediately cut off charter flights and reached an agreement with Republican lawmakers on a bill to tighten the U. S. embargo against the island nation. But while the fallout may temporarily hurt U. S.-Cuba diplomatic relations, experts say, it won't diminish business interest in Cuba. John Kavulich, president of the U.S.-Cuba Trade & Economic Council, says about 1,300 U. S. business executives visited Cuba in 1995 on authorized trips, and more are expected this year. If the U. S. wants influence with Cuba, "the most important thing the U. S. could do would be to open industry and business totally and encourage companies to go there," says Archer Daniels Midland Chairman Dwayne Andreas, a critic of the embargo.

CLOSING BELL

METAL MADNESS

Eighteen months ago, Alumax considered buying Kaiser Aluminum but never made a move. Bad idea. On Feb. 23, Kaiser made an unsolicited, $2 billion offer for its larger rival, and Alumax is less than pleased. The Norcross (Ga.) company is taking its case to Wall Street, arguing that it can do better as an independent concern. It has also created a "poison pill" anti-takeover defense. Regardless, Alumax shareholders are sitting pretty. The company's shares are up about 11% since the bid.

MICRON'S CHIP FACTORY: ON HOLD

WILL LATER BE BETTER THAN never? Micron Technology, the Boise (Idaho) company that ranks among the world's top 10 chipmakers, said on Feb. 26 that it won't finish its new $2.5 billion chip factory on schedule. Equipment worth hundreds of millions won't be installed until the market for memory chips, especially dynamic random-access memory chips, improves. DRAMs account for the bulk of Micron's $3 billion in annual sales, and DRAM prices have plummeted. Now, Micron may have to borrow to finish the plant, whose cost is now nearly twice as high as the original plan.

ON THE TRAIL OF HIGH-TECH SCAMS

BONNIE AND CLYDE, MOVE over. Congress is sounding alarms on high-tech financial crime. The House Banking Committee held hearings on Feb. 27 and 28 to examine the threat from counterfeiting, bank theft over global banking networks, and credit-card fraud. Committee Chairman James Leach (R-Iowa) has introduced legislation that, among other things, would raise the maximum sentence for counterfeiting to 25 years. Many scams are believed to be tied to international organized crime networks. Counterfeit $100 bills are now so common that the government is about to introduce new C-notes.

HEADLINER: EDWARD McCRACKEN

FROM SPIELBERG TO SUPERCOMPUTERS

For years, Edward R. McCracken, chairman and CEO of Silicon Graphics, has seen his company's high-powered computers create dazzling special effects, such as the dinosaurs in *Jurassic Park*. If all goes well, McCracken will soon enter the world of high-end supercomputing, as used by government code-breakers and nuclear-weapons designers.

On Feb. 26, Silicon Graphics agreed to buy supercomputing market leader Cray Research for a combination of stock and cash worth $783 million. The deal will boost SGI's annual revenues to more than $3 billion. Cray, which expects to see profits improve this year, will act as a buffer against competition from Sun Microsystems and Hewlett-Packard.

McCracken plans to keep Cray and SGI operations separate but may partially merge their computer designs. SGI may also use Cray to crack the commercial market, where supercomputers are used to search through huge databases. If he succeeds, he's betting it will have a special effect on SGI's bottom line.

By John W. Verity

NEW HANDS ON BOEING'S CONTROLS

OVER THE YEARS, PHILIP M. Condit has been an advocate of making Boeing more of a team-oriented place. Now he has his chance. On Apr. 29, Condit will become Boeing's seventh CEO in the company's 80-year history. Boeing is currently riding a rise in airplane orders, and Condit foresees continued strong global opportunities in both military and commercial aviation. But intensified competition will make it harder for Boeing to maintain its current 70% commercial market share. The executive shift should be smooth, but watch for turbulence ahead.

LOCKHEED-LORAL: INSIDER TRADING?

STEALTH TRADING APPARENTLY didn't work this time. The Securities & Exchange Commission is looking into possible insider trading in advance of Lockheed Martin's announced buyout of Loral. A Lockheed Martin spokesman confirmed that the regulator has asked the company for the names of people who knew of the Jan. 8 deal ahead of its announcement. The New York Stock Exchange is also investigating. Loral disclosed the inquiry in a Feb. 27 SEC filing, but both Loral and the SEC declined comment.

ET CETERA . . .

- Weyerhaeuser is buying $500 million worth of timberland from Hanson PLC.
- Investors poured a record $28.9 billion into stock mutual funds in January.
- Tears on the Thames: Princess Di agreed to Prince Charles's divorce request.
- Sam Zell is suing Rockefeller Center Properties for breach of a financing pact.

During the past year, the Colorado River carved nother millimeter into the Grand Canyon, Santa na winds shifted millions of tons of sand around the lojave Desert, and Jeep engineers added over 40 major lvancements to Jeep Grand Cherokee Limited 4x4.

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EDITED BY OWEN ULLMANN

A BOMBING PAUSE IN THE WAR AGAINST INFLATION?

When Alan Greenspan emerged from the Oval Office on Feb. 22, the normally poker-faced Federal Reserve chairman was grinning ear to ear. And why not? President Clinton had just nominated him to a new term and filled two other Fed vacancies with low-key moderates who had Greenspan's blessing. So the Fed chief will have carte blanche over the next four years to pursue his long-cherished goal of zero inflation. Right?

Hold on. Beneath Greenspan's ideological armor beats the heart of a cautious pragmatist. The Fed chief has checked the national pulse and concluded that '96 is no time to push the consumer price index below last year's 3%. If anything, Greenspan will emphasize ensuring annual economic growth of about 2% for as long as possible. That means more interest-rate hikes may come—perhaps as soon as Mar. 26, when the rate-setting Federal Open Market Committee meets next.

SCAPEGOAT. Some hawks on the FOMC still want to wring as much as another percentage point out of the inflation rate in coming years. But privately, Greenspan signals that the political cost of such a move would far outweigh the unproven economic benefit. Already, the moderate growth Greenspan is pursuing to keep inflation in check is under attack from both parties, which are pushing for faster growth to allay worker job insecurity. The Fed boss knows that if he sacrifices growth to squeeze more inflation out of the economy, he'll goad President Clinton and Pat Buchanan into making him a scapegoat.

In an ideal world, Greenspan believes, real price stability would be best. But he recognizes there is no conclusive Fed research supporting that belief, which is why some central bank insiders predict Greenspan will be cautious about driving inflation much lower. "Nobody can tell me that going from 3% to 1% inflation brings a big economic bonanza," says Arthur J. Rolnick, research director at the Federal Reserve Bank of Minneapolis.

Indeed, Greenspan suspects the Fed is already close to realizing its ultimate goal of stable prices—given a statistical bias that may overstate inflation by as much as 1.5 percentage points. The Fed chief has often defined price stability as the point at which businesses and individuals stop factoring inflation into their behavior. Among recent anecdotal evidence bolstering that case: The length of new union contracts averaged a record 38.7 months—a sign that workers are less concerned about protecting their wages against future inflation.

IN HARMONY: *Rivlin, Meyer, Greenspan*

Greenspan feels confident that the less restrictive monetary course he'll steer this year will please Clinton's other two Fed nominees: Office of Management & Budget Director Alice M. Rivlin, tapped for vice-chair, and St. Louis economic consultant Laurence H. Meyer, nominated as a governor. Greenspan should like his new teammates—he may have helped select them. Some Administration officials question whether Senate Republicans gave the Fed chief a veto over Clinton's picks. Although Greenspan denies involvement, some Clintonites suspect he opposed the President's first choice for vice-chair, financier Felix G. Rohatyn, a strong advocate of faster economic growth.

There's no question that Rivlin and Meyer are more in sync with Greenspan than Rohatyn. Both nominees agree that the economy can't grow much beyond 2.2% a year without rekindling higher prices. And neither is willing to drive up unemployment to achieve more gains against inflation. With the political winds of '96 howling, a moderate monetary policy is the safest bet—and just what Dr. Greenspan ordered.

By Dean Foust

CAPITAL WRAPUP

DEMOCRATIC DOWNSIZING?

Corporate America is taking a lot of heat from Pat Buchanan for worker layoffs, but guess who's also thinking of downsizing: the Democratic National Committee. Party sources say the DNC is mulling over a reduction in its political staff, which now numbers 38, although no one is willing to say how many might be let go. The reason for a cutback: White House political advisers want the DNC to concentrate its spending on TV and radio ads rather than on salaries to support grassroots activities, phone banks, and outreach to constituency groups. Of a record $43 million raised last year, the DNC spent $15 million on ads promoting President Clinton. Another barrage of commercials is scheduled to begin in April.

NEW CONTRACT CURBS

▶ The Clinton Administration is planning to unveil new affirmative-action rules that would inhibit federal agencies from steering contracts toward companies owned by minorities and women. Administration officials have been reviewing affirmative-action programs since last June, when the Supreme Court issued stricter guidelines on policies for race and gender preferences. Recent political backlash is also driving the change. Under the new rules, the Office of Management & Budget must first find statistical and anecdotal evidence of discrimination in the region and industry where an agency plans to grant an affirmative-action contract. If the OMB finds no bias, women and minority contractors won't get special consideration.

PROTEST VIGIL: *Finally, the Health Ministry apologized*

JAPAN

ANATOMY OF A TRAGEDY

An AIDS scandal shakes Japan Inc.

For someone whose life has been shattered, Hiroshi Shimizu is remarkably calm. In a cramped Tokyo law office, the subdued, bitter man in his 30s—using an assumed name for the interview—relates how he became infected with the HIV virus from tainted blood products sold by Japanese hospitals to hemophiliacs during the mid-1980s. "I was raped," says Shimizu. "I never thought doctors would give me bad medicine."

Last year, Shimizu was shocked when a doctor newly transferred to his hospital broke the news. Four years earlier, he had asked his previous doctor if he could safely marry. "He told me: 'There's absolutely no problem,' even though he knew [I was infected]," Shimizu says. "I could have passed it to my wife." Luckily, he hasn't.

Shimizu is one of more than 2,000 hemophiliacs and their loved ones infected with the deadly virus before heat-treated blood products became available in Japan. It's a tragedy—and now it's a national scandal. In recent weeks, the country has been rocked by charges that Japanese drug and hospital companies kept selling tainted blood even after the AIDS threat was proved beyond a shadow of a doubt. Even worse is the charge that the Japanese government knowingly allowed this dangerous practice as part of a policy to protect domestic companies from foreign competition. Japan's bureaucrats are already under attack for their role in the banking fiasco. As the AIDS scandal unfolds, Japanese con dence in government could erc even further. Big settlements a related lawsuit may also se precedent in other AIDS liabil cases around the world.

The origins of the tragedy back to 1983. By then, scie tists were closing in on the rus that causes AIDS, and U. health authorities mandated th all blood products be heat-tre ed to protect hemophiliacs a patients from infection. Jap nese authorities were concern as well: the Health & Welfa Ministry formed an AIDS stu group headed by the countr foremost hemophilia expert, Takeshi Abe.

RAIN AND SLEET. What ha pened next has only just be revealed, thanks to an inves gation by new Health Minist Naoto Kan. According to inves gators, the ministry group on July 1983, recommended banning untreat blood imports. Since no heat-treat products were then available from Jap nese companies, the group also advis allowing emergency imports of heat-tre ed blood from companies such as U. drug giant Baxter International Inc.

But a week later, the recommend tion was reversed. According to mem recovered from the records of Atsua Gunji, then head of the ministry's Biol ical & Antibiotics Div., the recommend tion was overturned because it wou "deal a blow" to domestic companie Japan's marketers of blood produc bought imports of untreated blood—a they did not have their heat-treatme processes yet. The ministry insisted th Baxter conduct two years of clinical te ing in Japan before it used its new he treatment there. Domestic drug comp nies, led by Osaka-based Green Cro Ltd. rushed to develop their own trea ment processes. Meanwhile, Baxter a other foreign companies that alrea sold untreated blood products in Jap had to continue the practice if th wanted to stay in the market.

The recent revelations have spark some startling events in a count where discussion of AIDS is still large taboo. In February, Health Minister K made front-page news when he offici ly apologized to HIV-infected hemop liacs and families who had staged a 7 hour vigil in rain and sleet outside t ministry. Dr. Abe abruptly resigned

Protectionism, Denial, Apology

Japan's 13-year confrontation with HIV-infected hemophiliacs

1983 An AIDS study group formed by Japan's Health Ministry refuses imported U.S. heat-treated blood for hemophiliacs because of the "impact on domestic makers." The ministry also refuses to acknowledge AIDS as cause of death of a hemophiliac, despite the opinion of attending physician Takeshi Abe.

Takeshi Abe

1985 The ministry approves treated blood products. Later, a homosexual becomes Japan's first officially recognized AIDS-related death.

1989 Hemophiliacs file suit in Tokyo and Osaka, demanding compensation from the government and five pharmaceutical companies.

1993 A woman infected with HIV by blood transfusions during surgery is awarded government compensation, even though such cases have not been officially acknowledged.

1996 Naoto Kan, newly appointed Health & Welfare Minister, forms a special team to handle the HIV dispute. The team unearths "lost" documents revealing the government's foreknowledge. Kan apologizes to plaintiffs. Efforts are under way to reach a settlement with drug companies.

DATA BUSINESS WEEK

vice-president of Teikyo University on Feb. 26. The mother of one AIDS victim is pressing for murder charges against Abe. He hasn't responded publicly, but university officials quoted him saying his conscience was clear. Atsuaki Gunji may also face criminal charges.

Meanwhile, lawsuits filed by hemophiliacs and their families in 1989 are approaching resolution. Three Japanese drug companies as well as U.S.-based Baxter are hashing out a settlement with the families. Germany's Bayer Group, which sold blood products in Japan, is also seeking "a constructive solution."

Although the total liabilities for the companies could approach $2 billion, victims call the court-recommended payments of $450,000 for each plaintiff "pretty cheap for a human life." They want at least $600,000 each in lump-sum damages as well as other compensation.

If similar settlements become the norm for AIDS liability cases around the world, industry sources worry the costs could be staggering for health-care companies involved in the blood business. Baxter officials say the company is taking a $131 million charge related to the case, but insurance is covering a chunk of that. Green Cross said on Feb. 22 that its liability from the settlements would be at least $200 million. A surprise Health Ministry inspection of the company on Feb. 23 revealed evidence suggesting that Green Cross falsified documents to indicate that it had stopped selling tainted products before it actually had. The company denies any intentional alteration of documents.

The scandal partly reflects Japan's long-standing aversion to any frank discussion of AIDS in public. More than a decade into the epidemic, some Japanese physicians still don't inform infected patients of their condition. Some hospitals still turn HIV patients away. Already, 400 Japanese infected by blood products have died of full-blown AIDS.

The scandal also sheds light on deeply rooted problems with the Japanese medical system and the government's oversight of it. Blood-products companies are eager to employ the Health Ministry bureaucrats who once regulated them. At least nine ministry bureaucrats have retired to executive positions in the blood industry since 1980. This practice is part of the Japanese tradition of *amakudari*, or "descent from heaven." Ryuhei Kawada, the 20-year-old hemophiliac who put a human face on the blood issue when he went public with his identity last year, says: "*Amakudari* is a structural problem, and the general public just allows it to exist."

"VERY SPECIAL..." Kawada and his mother helped arouse favorable opinion for their cause by courting the press. Public outrage, as well as some rulings for the plaintiffs last October, may have helped cause the appointment of reformer Kan to the Health Ministry. Kan, a patent attorney with a long history of civic activism, ignored objections that key documents had been "lost" and launched his investigation. Says Toshihiro Suzuki, one of the plaintiffs' leading lawyers: "This case is very special because we rarely have proof that the influence of drug companies on public policy had a negative effect on patients."

Yet the plaintiffs still feel that some stonewalling is taking place. In testimony before the Diet, former ministry officials have been vague about the events of a decade ago, often claiming memory loss. "I trust Kan personally, but I cannot trust the ministry," Kawada says. "The whole system should be overhauled, and every member of the ministry must change." That's a tall order. But Kawada and his fellow plaintiffs have already dealt a blow to the image of the Japanese Establishment.

By Edith Hill Updike in Tokyo, with bureau reports

"I cannot trust the ministry. The whole system should be overhauled"

RYUHEI KAWADA
AIDS patient

EUROPE

THE BIG SQUEEZE ON CARMAKERS

If they can't boost sales abroad, several takeovers may loom

One of the titans of Europe's car industry, Fiat Chairman Gianni Agnelli, retired in February with one big regret. Agnelli, 75, wishes he could have merged Fiat with one or more of its competitors to form a European car group. "National egos always got in the way," laments Agnelli, who tried to merge Fiat with Citroën, Peugeot, and Ford of Europe. Agnelli figured that only a giant car group could prevail in tough European and global markets.

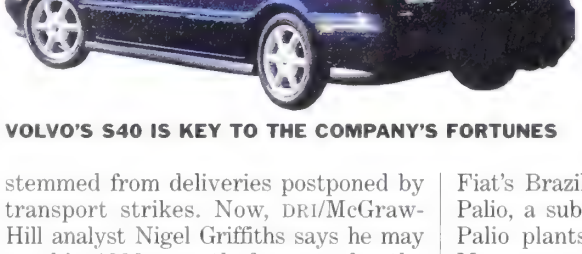
FIAT'S Y WILL GO UP AGAINST CITROEN'S SAXO

UPSIDE Europe's carmakers do have some strong points: They've cut costs, boosted quality and productivity, and nearly eliminated debt loads

Agnelli is gone from the scene, but his analysis still makes sense. As they gather for the Geneva Motor Show on Mar. 5, Europe's car bosses are confronting another rough year in a lackluster home market. As a result, all of them are counting on export drives and offshore production to offset weakness at home. But if their overseas efforts founder, several of Europe's auto makers may yet succumb to a takeover, even without Agnelli around to spark a deal.

SPOOKED CONSUMERS. Europe's carmakers had hoped that a record 21 new models last year would reignite local sales. Some models were hits, such as Audi's $27,000 A4 sedan and Fiat's $11,000 subcompact Punto. But industry sales edged up just 0.6%. And as rising unemployment spooks consumers, this year looks only slightly better (chart).

Oddly enough, early sales numbers for 1996 are up. Car sales in Germany leaped 12% in January. But carmakers say that was a fluke caused by the late arrival in showrooms of models launched last fall, such as the Opel Vectra. In [illegible] a January sales jump of 18% stemmed from deliveries postponed by transport strikes. Now, DRI/McGraw-Hill analyst Nigel Griffiths says he may cut his 1996 growth forecast for the European market to 2% from 2.5%.



VOLVO'S S40 IS KEY TO THE COMPANY'S FORTUNES

Consumer angst is hitting profits. Volvo's car unit lost $124 million in the last quarter of 1995. Ford of Europe saw profits drop 9% for the year. Meanwhile, cash rebates, which eat into margins, have become the norm. For two years, for example, the government has paid rebates in France—up to $1,400 a car. Most manufacturers match that amount, meaning French motorists can get rebates of up to $2,800.

In this environment, auto makers will offer only 10 new models this year. Peugeot's Citroën unit is about to launch Saxo, a small car starting at $12,160. Fiat's Lancia unit will launch a Saxo rival called the Y. GM is introducing a minivan, the Sintra, which will be priced at roughly $32,000 in Europe. Especially crucial is Volvo's new S40. At about $27,000, the midsize car will compete against smaller BMW and Mercedes. If the S40 bombs, analysts say shareholders could demand that Volvo seek a partner.

ROVER'S FOCUS. As they assess their gloomy market, Europe's auto makers figure they do have a few advantages. Most big companies have managed to contain costs, improve quality, and nearly wipe out debt loads. Earnings for GM/Opel were up in 1995, and gains are expected at Volkswagen, too. Some companies have cash troves—for example Volvo, which has $4 billion.

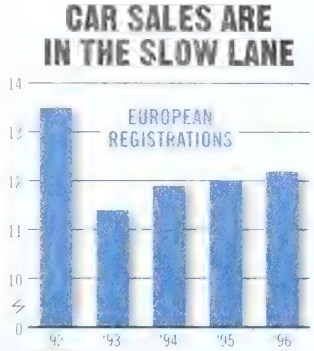
That strength is needed for a global push. "European markets are tough," so "we're concentrating on exports," says John Towers, chairman of Britain's Rover Group Holdings PLC, owned by BMW. Rover's sales outside Europe—especially in Japan and the U.S.—jumped 38% last year. Ford is also exporting 7% of its European-built Mondeos—28,500 cars—to southeast Asia and is eyeing Japan.

Overseas production is on the rise, too. In April Fiat's Brazil operation will roll out the Palio, a subcompact "world car." Other Palio plants will follow in Argentina, Morocco, and perhaps South Africa. Citroën is expanding in China, while Peugeot is searching for a partner to make cars in the U.S. Volkswagen is also expanding in Brazil and solidifying its position as China's biggest auto maker.

Building plants abroad may not relieve chronic overcapacity in Europe. But if competition at home can't produce the much needed shakeout, rivalry in global markets may do the trick. Foreign ventures that flop will weaken companies, leaving them exposed to takeovers. The critical battles of Europe's car wars may take place in the showrooms of São Paulo or Chicago. From retirement, Gianni Agnelli will be cheering.

By Stewart Toy in Paris, with David Woodruff in Bonn, John Rossant in Rome, and Julia Flynn in London

CAR SALES ARE IN THE SLOW LANE



DATA: EUROPEAN AUTOMOBILE MANUFACTURERS ASSN., DRI/McGRAW-HILL

GROUNDED? *The bickering between the two airlines may destroy similar pacts*

AIRLINES

KLM AND NORTHWEST: RUMBLE IN THE COCKPIT

Their pact was seen as a model. Now it may be unraveling

It was a match made in heaven, or at least at 30,000 feet: the partnership of KLM Royal Dutch Airlines, a European carrier with a tiny home market, and Northwest Airlines Inc., a regional U.S. player with great Pacific routes. The seven-year KLM-Northwest union—which allows them to merge schedules, pricing, and service—has been adding $200 million annually to the carriers' combined revenue. And the link proved critical in 1993 when Northwest narrowly avoided bankruptcy thanks to $250 million in loans arranged by KLM.

Now that Northwest is prospering again, the deal may be unraveling. KLM is suing Northwest, which recently posted a record 1995 profit of $392 million and boasts the highest profit margin among U.S. carriers. At issue is a plan adopted by the Eagan (Minn.) carrier last November that would prevent the Dutch airline from adding to its 20% stake in Northwest's common stock. KLM holds an option to acquire an additional 4% of Northwest's stock in 1998—a right granted by Northwest's other original investors when they were desperate for cash during late 1992. Another KLM lawsuit challenges an October change in stockholders' agreement that eliminates its veto power over a major sale of assets.

All this bickering could destroy a high-profile pact just as other carriers are attempting to imitate it. The recent "open skies" agreement struck between the U.S. and Germany to eliminate restrictions on flights between the two countries has sparked new interest in such arrangements. But "you can't have a good commercial alliance, which is based on trust, if you have fractious arguments over governance," warns Jon F. Ash, managing director with Global Aviation Associates Ltd. in Washington, D.C.

ANIMOSITY DEFUSED. The dispute is fierce. Dealmakers Gary L. Wilson and Alfred A. Checchi, who bought Northwest in a 1989 leveraged buyout, claim KLM is seeking "creeping control" of their airline—even though American law limits foreign carriers' ownership of U.S. airlines to 25%. A source close to KLM fires back that Wilson and Checchi are only interested in quickly selling Northwest to the highest bidder. Sources say Northwest and Continental Airlines Inc. discussed joining forces last year but couldn't agree on price. So far, Northwest employees, who are represented by three board members, and other original investors such as Bankers Trust New York Corp., are siding with Wilson and Checchi.

Many on Wall Street and in the airline industry, however, are sympathetic to KLM. "Wilson and Checchi agreed to [the stock option] and now they're trying to retrade the deal," says John Pincavage, airline analyst with Dillon Reed in New York. Since going public again in March, 1994, Northwest's stock has more than tripled, to around $43, greatly increasing the value of the options held by KLM.

Not every sign points to trouble. On Feb. 23, KLM said it would replace its president, Pieter Bouw, and two other KLM executives on Northwest's board with outsiders. The announcement was coordinated with Northwest and applauded by Checchi and Wilson, who had been complaining the KLM execs had a conflict of interest because of their roles at both companies. The move also defuses personal animosity between Northwest CEO and President John H. Dasburg and Bouw. KLM and Northwest both say they won't allow the dispute to kill a mutually beneficial arrangement.

Yet it is unlikely that the core of the dispute—ownership and control of Northwest—will be resolved any time soon. Northwest is seeking to dismiss both KLM suits. But if that gambit fails, expect protracted litigation. Checchi and Wilson are not allowed to sell their shares until 1997 under an agreement with employees. And Checchi says that he would be content to stay at the company "for many years in the future." For now, it appears that Northwest and KLM are stuck with each other. This once heavenly match may turn out to be the marriage from hell.

By Susan Chandler in Chicago

Can This Marriage Be Saved?

Dealmakers Wilson and Checchi claim KLM is seeking "creeping control" of Northwest. A KLM source says the two only want to sell to the highest bidder

AUGUST, 1989 KLM pays $400 million for a 20% equity stake in Northwest after the airline is purchased in an LBO by dealmakers Gary Wilson and Al Checchi.

DECEMBER, 1992 KLM takes part in a $250 million loan package to bolster ailing Northwest and gets low-priced options to buy an additional 4% of the airline's stock in 1998.

JULY, 1993 Northwest comes within hours of filing for bankruptcy, but employees agree to $886 million in wage concessions.

MARCH, 1994 Northwest goes public again.

NOVEMBER, 1995 Northwest adopts a poison pill that limits any shareholder to 20% of its stock. KLM files suit, saying its rights are being abridged.

FEBRUARY, 1996 KLM says that it will replace its three directors on Northwest's board with independent directors.

DATA: BUSINESS WEEK

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SGS-THOMSON has recorded yet another year of steady and impressive growth, once again outpacing the rate of growth in our served markets. Net revenues are up 34% to $3.554 billion, while earnings have risen from $362.5 million to $526.5 million.

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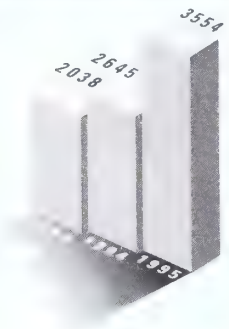
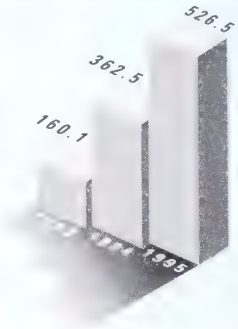
Our continued success has renewed and strengthened our dedication to all whom we have had the privilege to serve.

Once again, thank you.

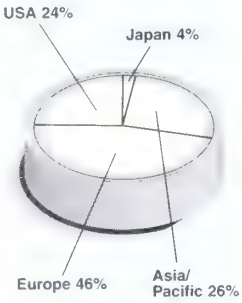
Net Revenues: Millions of Dollars



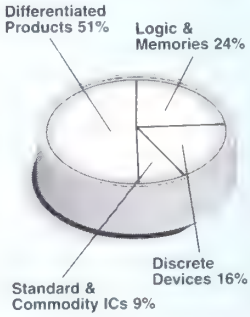
Net Earnings: Millions of Dollars



1995 Sales By Region



1995 Sales By Product Group



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EDITED BY STANLEY REED

THE FAULT LINES IN ASIA ARE STARTING TO LOOK DANGEROUS

For years, the Chinese, Japanese, and Koreans have argued that they could overcome traditional animosities by concentrating on making money. So far, they've been specularly right. Despite Japan's economic woes, East Asia has nerged as the world's fastest-growing economic zone.

But suddenly a series of disputes is raising questions bout how long Asia can maintain such smooth geopolitical ability. Diplomats are focusing on China's threatening bevior toward Taiwan, but the standoff between Beijing and aipei is not the only hot spot. Kim ng-Il's secretive regime in North Koa could collapse at any moment or, in speration, pour troops through the militarized zone into South Korea. nina, Taiwan, Singapore and other wers are all racing to boost their milary arsenals. And there are even zarre territorial disputes cropping up ch as the current squabble between oul and Tokyo over an obscure rock and in the Sea of Japan.

UNWELCOME? *A U.S. fighter in Okinawa*

It seems a good bet that these tens will increase. They are not as reatening as the former Soviet Union was, but they will be ich trickier for the Asians and the U.S. to manage because clashing interests and rising nationalism. It will also be inasingly difficult for Washington to play a leadership role, in rt because Asians fear America's commitment is waning.

Now that there is no common Soviet enemy, Washing-n's key allies, Japan and South Korea, are developing agens that could widen differences with the U.S. on strategy d tactics. One risk is that a rift will emerge between the S. and Japan on how to manage a more assertive China. nerica is urging toughness, while Japan seems more conned with preserving trade interests. U.S. diplomats prively criticize Japan for not helping fight Chinese trafficking nuclear weapons technology and for lukewarm support of American efforts to make Beijing play fair on trade.

Despite the warm statements following the recent meeting between President Bill Clinton and Japanese Prime Minister Ryutaro Hashimoto, security differences are looming larger. True, the two countries will likely find a way to keep U.S. troop levels in Japan at 47,000 while defusing outrage over last year's rape incident by GIs on Okinawa. But how much freedom will the U.S. have to use those forces? Tokyo is balking at Washington's request for Japanese logistical support should Japan-based U.S. forces be needed to deal with conflict in Asia. "We would be placed in a very difficult situation," says one Ministry of Foreign Affairs official.

TOUGHER LINE. At the same time, Washington is finding its other key ally in the region, South Korea, increasingly hard to lead. The main issue is North Korea. The South doesn't want Western economic aid to prolong the life of Pyongyang's military regime. But the U.S. worries more about the consequences of a collapse in the North, which of late has been staggered by famine, catastrophic floods, and high-level defectors, including a former wife of Kim. To prevent an explosion, Washington is inclined to give the North a helping hand. But facing tough elections, South Korean President Kim Young Sam has taken a harder line against such assistance.

Despite all these thorny problems, the pursuit of wealth and industrialization remains the region's overriding priority, and Asian government and military leaders recognize that any conflict would jeopardize that. The likelihood is still that Asians will be able to keep tensions from derailing their economic agendas. But clearly, maintaining that balancing act is getting more difficult.

By Brian Bremner in Tokyo

GLOBAL WRAPUP

S FOKKER DOOMED?

The prognosis looks grim for Foker, the troubled Dutch aircraft manuicturer. On Feb. 27, Canada's Bomardier Inc. said it wouldn't bid for okker's assets, concluding that such n acquisition would be too risky. Foker is desperately hoping that South orea's Samsung Aerospace Indusies Ltd. will make an offer.

But Fokker's key investor, Daimr Benz, is skeptical that the South oreans will be able to extract iough concessions from the Dutch government to make an acquisition work financially. Daimler Benz, which still holds a majority stake in the company, tried to wrest such concessions and failed. Meanwhile, companies such as British Aerospace PLC are lining up to cherry-pick Fokker's parts if the company is liquidated.

DINI BLURS THE ITALIAN PICTURE

▶ The decision of Italy's acting Prime Minister, Lamberto Dini, to throw himself into the political fray could usher in a center-left coalition in upcoming parliamentary elections on Apr. 21. Dini's newly formed party could wind up holding the balance of power after the elections.

His move is a blow to the ambitions of former Prime Minister Silvio Berlusconi and his ally, Gianfranco Fini, leader of the far-right Alleanza Nazionale party. The sharp rally in Italian bonds following Dini's announcement shows that the markets think he may emerge from the vote as a strengthened Prime Minister who will be able to push through a tough budget for the next year.

Ten years of downsizing and widening income inequality have taken an enormous social toll. U.S. workers are losing faith in their ability to prosper

You hear a rumor: A General Electric Co. plant in the Midwest is about to close its doors and move its operations south of the border. You talk to a friend: Her brother turned down AT&T's buyout offer, only to be faced with immediate dismissal. You consider your future: A career change might be nice, but not an involuntary one. So you rein in spending and ramp up savings, just to be safe.

This is not your father's economy.

Instead, it has turned into a high-wire act for everyone—from the blue-collar worker who's eking out $5 an hour plucking chickens to the bank teller whose job is being cut in a merger to the midlevel executive who's now working out of his home as a consultant. It is a story that can't be told by the numbers, because the numbers at times are misleading: 8 million jobs created in four years, the unemployment rate at 5.8%, inflation down to 2.7%, corporate profits on a four-year roll, and four years of economic recovery under our belts (page 52). "All the economic indicators are up . . . except mine," says Paul J. Szilagyi, 50, an unemployed North Miami Beach resident with a PhD in chemistry.

Cover Story

It's not just the unemployed like Szilagyi who are experiencing some cognitive dissonance these days. Real wages have been stagnant for most of the past two decades. The distribution of income among Americans has become more unequal over the same period. For most Americans, the workplace has become a far more capricious place. During the past decade, Corporate America has restructured, downsized, right-sized, and reengineered millions of people out of their jobs while putting the squeeze on the wages of remaining workers. At the same time, top executives promised that the payoff would come—first in higher productivity and then, labor's due, in higher wages.

It has been like waiting for Godot. It took a rabble-rousing Pat Buchanan, fulminating about jobs lost to Mexico and greedy corporate bosses, to give voice—however incendiary—to Americans' frustrations about the economy. Buchanan and his supporters, of course, have a wide-ranging wish li from banning abortion to walling out immigrants. He is likely to win his party's nomination, but Buchanan's econo ic message "will survive long after his viability as a candida has ended," says Steven S. Roach, an economist at Morg Stanley & Co. (page 58).

There are economists who believe that robust econon growth would be a strong palliative for this angst—and causes. James K. Galbraith, an economist at the University Texas at Austin, argues that the unemployment rate—and extension, economic growth—is the single most importa factor affecting the distribution of income. Push the unemplo ment rate dramatically lower, he says, and income inequali will be far less of a problem.

Everybody agrees that economic growth stronger than la year's 2.1% would help. But macroeconomic policy is inad quate to address the powerful structural changes in t U. S. economy—the widespread diffusion of new technologi the growth of trade's role, more rapid immigration.

LOST CONTRACT. "People have a sense that these are chang radically different from anything they have seen befor says Claudia Goldin, an economic historian at Harvard U versity. Many workers lament the breakdown of the soc contract between employees and employers—a contract th once made it possible to raise both a family and one's livi standards. In a BUSINESS WEEK/Harris Poll of 1,004 adults co ducted in late February, 77% of the respondents rated lar corporations only fair or poor at providing job security f their workers, and 78% rated the companies similarly their loyalty to employees (page 64).

The restructuring of Corporate America has carried enc mous social costs. Nitin Nohria, a professor at the Harva business school, tracked the changes that engulfed 100 America's largest companies—"symbolic markers of our we being"—from 1978 to the present. He found that on a net b sis, 22% of the workforce of these companies, or 3 milli workers, was laid off during the period, and 77% of all layo involved white-collar workers.

So perhaps it's no surprise that Corporate America ge its share of blame from alienated workers. Workers also b lieve that something should be done about imports to prote U. S. jobs: In the BUSINESS WEEK/Harris Poll, 50% of the r spondents endorse import taxes or tariffs. Since the mi 1970s, the share of trade—imports plus exports—in t American economy has risen. But the perceived threat m be greater than the real threat. Economists believe th global trade explains perhaps 10% to 15%—at most 20%— the increasing inequality of wages. By the same token, i

ECONOMIC AN

migration is doing very little direct economic damag

If trade and immigration don't play such a big role in d termining people's economic well-being, what about that ot er bugaboo, technology? By and large, the BUSINE WEEK/Harris Poll indicates, workers seem about evenly divi ed about technology's benefits and whether it's worth e during the near-term pain for the long-term gain of high productivity, better wages, and new jobs.

Speak to workers, though, and they know that there's

NETY

turning back and that they are going to have to make some adjustments. "It's not like the old days when you graduated from high school and had the same job for 20 or 30 years," says Denis Velez, a 47-year-old commercial photographer. He has taken a job that pays $200 a week processing film at a Ritz camera shop in Deerfield Beach, Fla., so he can get health benefits for his family. "Technology, especially in the field I'm in, is changing so much.

Cover Story

In a couple of years, film itself will be obsolete."

Although workers realize they have to retool, many hope for guidance. So far, notes Shoshana Zuboff, a Harvard business school professor and author of *The Age of the Smart Machine*, only a handful of companies have committed the resources to help their workforces develop new skills. Today, corporations essentially all have the same technology, the same networking systems, the same software, she says. The only way they can beat out their competitors is by enabling their biggest asset—their workforce—to be more innovative in using the technology to create new products and new services that sell well. Instead, throughout its decade-long restructuring, Corporate America has primarily viewed workers as liabilities rather than assets (page 60).

The Austrian-born economist Joseph Schumpeter observed that creative destruction was capitalism's hallmark, and today Americans are feeling its effects with a vengeance. If America wants the benefits of expanding trade and technological innovation, it needs to do more to ease the pain of transition. For corporations, that means better training programs, heightened sensitivity to the anguish of layoffs, and shared sacrifice by management. For policymakers, that means encouraging workers to gain new skills—by introducing training vouchers and expanded investment reitrement-type accounts to pay for tuition.

Investing in human capital is not a new idea—but it needs to be pursued aggressively, not merely be given lip service. If America doesn't respond to this challenge, the antibusiness backlash already under way will worsen, and the tenets that have made the American economy so competitive and vibrant will be in danger of being undermined.

By Karen Pennar in New York, with [illegible]n B. Garland in Washington, Eliz[illegible] Roberts in Deerfield Beach, Fla., [illegible]ureau reports

IS ALL THAT ANGST MISPLACED?

America can't return to the security of the '60s, but job gains and rising wages show the worst is probably over

Ask Americans what worries them about the economy, and they'll tell you straight out: Almost everything. Slow growth. Unemployment. Inflation. Foreign competition. Somewhere along the way, they say, America has gotten off track. "I don't think you can say to your kids anymore, 'If you study hard and play by the rules, things are going to be O.K.,'" says Stephen D. McGregor, 44, a public-relations executive at a Dallas technology company who in the past five years has been laid off by both American Airlines and MCI. "You can't promise that anymore."

The hard numbers, though, tell a much different story. The U.S. unemployment rate hovers at a low 5.8%. Real hourly wages are rising, for the first time in 10 years. Corporate America, flush with a string of record-busting quarters, is investing in new equipment at near-record levels. Productivity is rising. Exports are up more than 20% in just the past two years. And the soaring stock market is pumping up the retirement funds of much of the American workforce.

The problem, then? Job insecurity—and it's a big one. In January alone, U.S. corporations announced almost 100,0[illegible] job cuts, up sharply from a monthly ra[illegible] of 37,000 during 1995. "In December, [illegible] was telling people [job cuts] were slo[illegible]ing down," says John A. Challenger, e[illegible]ecutive vice-president at Challenge[illegible] Gray & Christmas Inc., an outplaceme[illegible] firm. "But they're accelerating again."

The headlines are all too familia[illegible] America's biggest companies are e[illegible]gaged in a brutal, wrenching transiti[illegible] toward a global, information-drive[illegible] economy. And the price is being pa[illegible] now by managers and professionals. [illegible] full 11% of male, college-educated wor[illegible]ers lost their jobs from 1991 throug[illegible] 1993, according to a new study b[illegible] Princeton University economist Hen[illegible] S. Farber. By comparison, during th[illegible] recession years of 1981 to 1983, 8% [illegible] this group experienced a job loss.

BIG BLUE BOUNTY. Look behind th[illegible] headlines about massive corporate dow[illegible]sizings, though, and the news gets be[illegible]ter. Of the 8 million new jobs created [illegible] the past four years, some 60% we[illegible] managerial and professional position[illegible] In 1995 alone, the U.S. economy create[illegible] more than 1 million new managerial a[illegible] professional jobs.

Even in industries where job-slashi[illegible] is taking place at record levels, simult[illegible]neous hiring is compensating for th[illegible] losses. Take communications. During th[illegible] past two years, the seven regional tel[illegible]phone companies have slashed som[illegible] 125,000 jobs, on top of the 40,000 late[illegible]

Would tight borders and high tariffs ra[illegible]

its announced at AT&T. Nevertheless, e industry's total employment rose by ,000 during the period, as companies efed up employment in cellular and her fast-growing businesses.

Then there's IBM. Since 1987, it has t about 180,000 workers. Now, IBM is nding out 8% pay increases to those o remain. More significantly, it is hir- g again—for its computer-services m. "We need roughly 10,000 people a ar for that business," says IBM Chief nancial Officer G. Richard Thoman. nd our major constraint looking for- rd isn't demand. It is finding those ,000 people."

For many communities, the downsiz- g or closing of major employers in- ally seems like an economic catas- phe. Yet new jobs often spring up replace the old ones. That's true for chester, N.Y., which in recent years s absorbed big job cuts at Xerox, stman Kodak, and Bausch & Lomb. vertheless, the unemployment rate the Rochester area has fallen from % to 3.8% during the past year, well ow the national average.

But what about wages? Americans gloomy because their paychecks seem be growing more slowly than in the 0s. But what they don't factor in is t inflation is much lower as well. Since 3, consumer prices have risen at only .6% annual rate, the slowest pace ce the mid-1960s. As a result, real ges and salaries have posted about a 1% increase over the same stretch.

Compared with the huge jump in profits, those pay hikes are puny. Yet they are an improvement over the real-wage declines Americans experienced through most of the '80s and early '90s. And the trend remains positive. Based on DRI/McGraw-Hill forecasts, inflation should stay tame in 1996. So real wages and salaries could rise by another 0.6%. Surprisingly, the gains are filtering down to less-skilled workers. These are the people who saw their wages plummet even during the Reagan boom era. Yet during the past two years, real hourly wages for production and nonsupervisory workers have risen for the first time in 10 years.

MINIMAL EFFECT. Presidential candidate Pat Buchanan says U.S. jobs would be higher paying—and better protected—in a country with a closed border and tough trade tariffs. Again, the numbers provide little evidence that either one has much of an effect on the wages of America's workers. A new analysis by economists George Borjas, Richard Freeman, and Lawrence Katz of Harvard University concludes that trade and immigration contributed only "modestly" to falling real wages for high school graduates in the 1980s.

The reason: Immigration and trade are simply not big enough, relative to the whole economy, to produce big effects on wages. Immigrants represent just 9% of the labor force, and merchandise imports account for only 10% of gross domestic product. Moreover, some 60% of U.S. non-oil imports come from countries with higher labor costs, like Japan and Germany, giving little incentive to cut wages in the U.S. to compete.

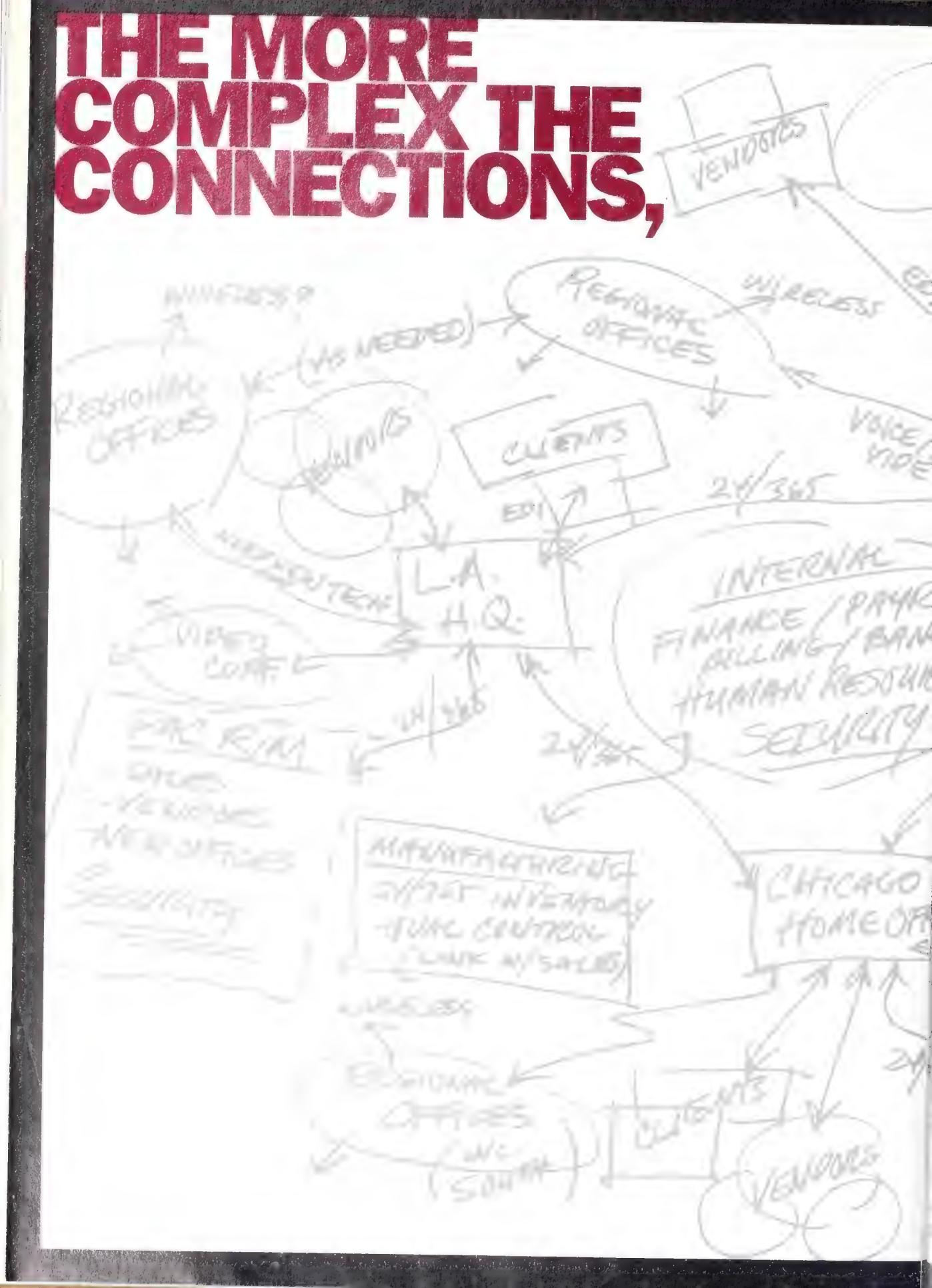
Indeed, trade may help explain why wages have risen during the past two years. Despite the $175 billion trade deficit in 1995, the largest on record, exports are far outpacing the growth of the overall economy. As exporting industries crank up output, they need more workers, helping push wages up. And these gains may be only a downpayment on the benefits of trade. In recent years, America's major trading partners—the European Community, Japan, and Canada—have been stuck in slow gear. As their economies stabilize, U.S. export growth should accelerate even further, pushing up wages in exporting industries.

Underlying all of these gains is a fundamental improvement in U.S. productivity growth. Right now, the official numbers show that output per worker is rising at a 1.1% annual rate, about the same as in the 1980s. But these statistics don't include data from the information economy—everything from the Internet to automated teller machines. Most economists agree that once the Commerce Dept. revises the statistics later in the decade, it will become clear that productivity is on the upswing.

Need more proof that productivity is on the rise? Look at Corporate America's

ries? There's little evidence that would happen

THE MORE COMPLEX THE CONNECTIONS,



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profit performance. Since 1992, real corporate profits have risen by 34%, a bigger increase than they registered during the previous 15 years. And that's without significant price increases in their products. The higher profits have sent the stock market soaring by 68%—a big benefit for the approximately 20% of the workforce who own stocks or have 401(k)s. James R. Passier had worked for 29 years for Travelers Corp., the Hartford insurer, before taking a sever-

ance package at the end of 1994. But he still owns shares in the company, which have doubled in value since then. "It may not be a good place to work," says Passier, "but it's a helluva stock to own."

What about the payoff? Is Corporate America's wrenching transition creating an economy that can successfully compete in a global economy? Future economic growth is fueled by investment in physical and human capital—and in both respects, the U. S. is in far better shape than it was during the 1980s. Business spending on new equipment, financed by strong profits, has climbed to a record 8% of national output. In 1995, the manufacturing capacity of the nation's factories rose by 4.3%, the biggest increase in 25 years.

Not only do workers have newer and more sophisticated equipment on their jobs, but they also are becoming better educated. In 1987, 57% of high school graduates went to college soon after graduation. That percentage now is 62% and climbing, despite rising college costs. By comparison, the percentage of high school graduates enrolling in college hardly rose from the late 1960s to the mid-1980s. Among males, the share going to college actually fell during the period.

Access to education is the key to success in a world where well-paid jobs for high-school grads are vanishing and being replaced by managerial and professional positions. The challenge for America: ensuring that everyone has the chance to get the education and training needed to succeed. "The data is very clear about the relationship between education levels and economic success," says IBM Chairman Louis V. Gerstner Jr. "If our country can't get a sense of alarm and start educating the 30% to 40% at the low end, we are going to be in trouble."

Can America stage a return to the 1960s, an era of wage increases and security for all? Not likely. But there is a payoff to America's transition: an economy that will benefit most Americans—no matter what Buchanan says.

Michael J. Mandel in New York, [illegible] reports

BUCHANAN ON BIG BUSINESS, BLUE COLLARS, AND JOE McCARTHY

With his fiery oratory and his guerrilla campaign, Pat Buchanan continues to be a major factor in an increasingly bloody Republican Presidential race. BUSINESS WEEK Washington Bureau Chief Lee Walczak caught up with Buchanan on Feb. 27 in Arizona and got a firsthand glimpse of the two-fisted commentator's unusual blend of free-market economics and blue-collar populism.

Q: *Isn't campaigning on the plight of blue-collar workers a bit of a stretch for a pro-business Republican?*
A: I'm still pro-business. I was a resolute free-trader in Ronald Reagan's White House. I was the strongest supporter of his vetoes of bills calling for quotas on [foreign] shoes and textiles. But gradually, I came to see that the U. S. share of the world manufacturing base was diminishing. You visit factories, you talk to workers, and you see the consequences of the policies we recommended. And you see that just as there are big winners in these trade deals, there are losers. All over America, there are losers in the millions.

Q: *So Republicans share the blame?*
A: Indeed we do. During the cold war, we allowed Japan complete access to our markets without demanding access to theirs. We opened up our market to people whose wages were much lower than those of Americans, and often jobs were lost. These trade policies have contributed to the social problems of the U. S.

Q: *Are you questioning the premise that the push into the global marketplace raises U. S. living standards?*
A: I agree with [U. S. Trade Representative] Mickey Kantor when he says that $1 billion in exports equals 20,000 jobs, and when you're running close to a $200 billion merchandise trade deficit, you're talking about 4 million lost jobs every year. You're talking about the deindustrialization of America, the export of our factories and manufacturing base, and you're talking about increasing America's dependence on foreign countries, even for necessities. I think the U. S. should be depend foreign countries for anything. M jectives are a thriving economy-soaring Dow Jones.

Q: *But wouldn't the huge tariffs propose amount to a heavy tax on the very workers you champi*
A: My critics are disingenuous, are mistaken. Every single dime in tariff revenues, which are con tion taxes on foreign goods, wou

cut taxes for American business workers. Look, the entire Repub run on tariff revenues during its decades, and the country grew f agricultural republic of 3 million mightiest industrial power on ea where our workers made two or times what workers overseas ma

Q: *O. K., Pat Buchanan is in th House, and AT&T cuts 40,000 job do you do?*
A: I think you can use the bully but there's not a great deal you We've got to start cutting tax ra deregulating business, especially businesses, so they can pick up t workers that Big Business is lop off. Small business is creating th

The new

Saab 900

Turbo.

Finally, a

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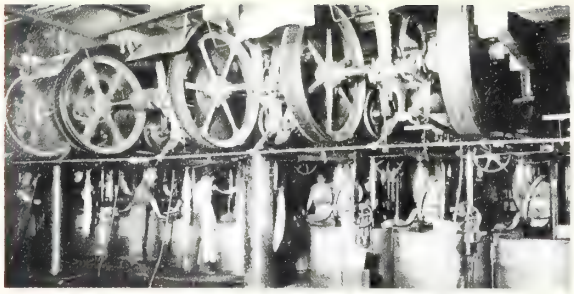
THE PEOPLE VS. BUSINESS

Throughout the past century, the relationship between Corporate America and society has swung between hostility and harmony

DATA: ALFRED D. CHANDLER JR. AND RICHARD S. TEDLOW, *THE COMING OF MANAGERIAL CAPITALISM*; BUSINESS WEEK



1880-1900 Rapid industrialization in sugar refineries and elsewhere challenges an economy rooted in agrarianism and individual enterprise. Big monopolies are born. A raft of anti-Big Business literature appears.

1892 While unions expand, 12 are killed as steelworker the Homestead Steel Works, owned Andrew Carnegie (center). Labor v lence spreads to railroads and min

WRITING A NEW SOCIAL CONTRACT

O.K., job security is dead. Where do we go from there?

We still don't have it right. For more than a century, since railroads and steel mills first overran a nation of farmers and entrepreneurs, the question of corporate obligation has vexed and divided Americans. What does business owe its workers? What is its social responsibility? Should investors call all the shots?

Corporate America, by and large, clings to faith in the restorative powers of the marketplace: "The idea of corporations taking on social responsibility is absolutely ridiculous," says Chrysler Chairman Robert J. Eaton. "You'll simply burden industry to a point where it's no longer competitive." Meanwhile, liberal intellectuals, bizarrely reinforced by Pat Buchanan's populist rhetoric, have returned to the comforting vision of a "stakeholder economy," where a company's employees, customers, and communities enjoy legislated

THIRD PATH. In the real world, neither solution is completely satisfactory. Americans want something more substantial than an invisible hand: 95% of 1,004 adults surveyed in a BUSINESS WEEK Harris Poll rejected the view that corporations' only role is to make money. people also say they're leery of regulatory intervention. "Business works bet if government stays out of it," says Dou Rees, 31, a Dallas attorney.

And so, in isolated pockets of Corporate America, a middle path is slowly emerging, one that reflects a new paradigm for business and society in a global market. It recognizes that job security died with the 1980s—but concedes, too, that employers bear an obligation to help workers through transitions. And it attempts to align the interests of investors, managers, and employees, aiming to share both the risks and the rewards of doing business.

Why should employers buy into this? Certainly, the profit motive remains as relevant as ever: Companies that can't compete are the ones that shed jobs and abandon communities. "My company is directly responsible for the livelihood of some thousand people. I consider that my contribution," says Er Smith, whose small Glendale, Cal company negotiates building-maint nance contracts.

But a nod to stakeholders can p duce results. At Starbucks Corp., wh provides all employees—even part-ti store clerks—with health insuran stock options, and training and care counseling, worker turnover is less th 60% annually, well below the 30 restaurant industry average. When P nacle Brands Inc. lost $40 million trading-card business to the 1994 ba ball strike, it challenged workers come up with new products and co cutting ideas; they did, and sales jump 80% in two years. No jobs lost.

THINKING AHEAD. Indeed, the new p adigm says layoffs are not inevitab Rather, stability is both more effecti and easier for society to take. "Her the challenge for business leadersh to manage continual improvement your competitive position through smoother management process so yo see less dramatic dislocation," sa Thomas P. Gerrity, dean of the Univ sity of Pennsylvania's Wharton Scho

The old way: Wells Fargo Co. mak a hostile bid for First Interstate Ba

1930s The Depression rocks faith in business, and union membership triples. Franklin Roosevelt regulates securities markets and banks; signs bills strengthening workers' rights.

1950s The Postwar boom. Emp ment and workers' wage steadily, along with corporate pro America's love affair with consum and the automobile–begins.

Woodrow Wilson is elected with an antibusiness mandate. ars later, he creates the Federal Commission to regulate "unfair" ss practices.

1920s The "welfare capitalism" movement induces employers to provide their workers with housing, such as Coalwood in West Virginia, as well as education, pensions, and stock.

p., threatening 8,000 jobs and enrag- Californians. The new way: Steel oducer Nucor Corp. manages down- ns by gearing down to four-day rkweeks; employees lose pay but ep their jobs. Southwest Airlines Co. oids job cuts by sticking to its low- t strategy through good times and l; workforce stability, it thinks, gives n edge over rivals.

Before the ax does fall, companies help workers enhance skills that get them work elsewhere. A grow- number of academics and consul- ts advocate this notion of "employa- ty" as the basis for a new social tract: With no job guaranteed, indi- uals are responsible for keeping mselves marketable, but employers obliged to offer resources for self- luation and training.

Deluxe Corp., for one, announced in uary that it would close 26 of its 41 ck-printing plants. But new CEO John Blanchard III elected to stretch the tdowns over two years and increased company funding for education of up $7,500 per worker annually, from 00. "Companies owe it to their em- ees always to upgrade skills," he says. Executives and academics say employability programs produce a committed workforce willing to innovate and take risks. The problem: They're expensive, and the nebulous results—borne out over an employee's lifetime—are difficult to quantify. Though committed in principle, many companies are wary of investing in workers who may take their skills to another employer. "They are still struggling with it," says consultant Judith A. Waterman. "No one has the real answer."

BIG DIVIDE. They're also wrestling with the matter of pay. While not everyone is offended by big executive paychecks, workers resent the CEO who profits at their expense. AT&T has shed 125,000 jobs since 1986, but CEO Robert E. Allen's salary and bonus has jumped more than fourfold, to $3.3 million in 1995. Though he took a $200,000 pay cut last year, he also won options worth $9.7 million. No wonder the troops are outraged. "People at the top are stealing from people at the bottom," says William Bessesen, a Denver resident who left his job at an office-supply company after it was acquired.

The question isn't so much who should get the spoils: Few argue that investors shouldn't be rewarded for their capital. Rather, the idea is to make workers' motivation consistent with that of managers and investors. "We share the pain and share the gain," says Nucor CEO John D. Correnti. At Nucor, every employee's pay depends on the steelmaker's profitability. IBM workers will get 8% average pay and bonus increases this year for exceeding 1995 profit targets. Joseph P. Sullivan, chairman of fertilizer giant Vigoro Corp., limits his own salary to 20 times that of $25,000 entry-level workers. "Everybody should pay if a company is having a bad year—or a bad decade," he says.

The possibility that such strategies can drive performance intrigues some executives. Even more compelling is the threat that popular discontent with Corporate America will encourage restrictive laws, such as that proposed by Senator Edward M. Kennedy (D-Mass.) to require companies to report on social responsibility efforts. "If it takes too myopic a view of its responsibility, business will be put on the receiving end of ill-conceived legislation," says Jeffrey A. Garten, a former Commerce Under Secretary, now dean at the Yale University School of Management.

Cover Story

It has happened before: Unionism and ever-expanding regulation were the products of earlier bouts with economic anxiety, of a sense that the shareholder/stakeholder balance was out of whack. Now, Americans say they would favor tax incentives to reward employers that preserve or create jobs. What they really want is for companies to ease the pain of transition and share in the sacrifices required. Far better for employers to figure that out on their own.

By Keith H. Hammonds in New York, with Wendy Zellner in Dallas, Richard Melcher in Chicago and bureau reports

Unprecedented merger activity marks the "go-go" years. But nment steps up environmental l regulation, sparked by such as Love Canal.

1980s Mike Milken cometh. Hoping to ward off hostile bids, employers start to slim down, asking workers to sacrifice in return for a later payback. Workers generally accede.

1990s The payback never arrives. Instead, globalization stokes the restructuring of American industry. Pat Buchanan and others ride the new antibusiness wave.

TO THE BARRICADES
French workers went on a 21-day strike when deficit-cutting seemed to threaten the welfare state

CLINGING TO THE SAFETY NET

Most nations want to streamline their economies slowly

Cover Story

If Karl-Heinz Jacobitz were American, he would probably support Pat Buchanan. In January, after 35 years of service, the 58-year-old Berliner lost his job at a tile and marble company, which closed its doors for lack of funds. Like bitter workers all over the world, he thinks Germany's economic angst has something to do with competition from lower-paid employees. "The big problem is that this country lets too many foreigners in," he grumbles.

There's no question that open borders, free trade, and economic globalization hurt workers in the rest of the industrial world as well as the U.S. And from France's Front National to Italy's Alleanza Nazionale, populists are calling for a step backward from free-for-all competition. But outside the U.S., such movements are mostly splinter groups. Rather than turning to isolationism, mainstream politicians in Continental Europe and Japan are trying to cope with the challenges of a world market by fine-tuning their economic models.

And they don't want to follow in America's footsteps. Europe and Japan have a more paternalistic corporate culture and a much wider social safety net than the U.S. That's not about to change. These countries will probably try to limit further damage from global competition. In Europe, that could mean a delay in monetary union, more regulatory barriers to imports, and moves to avoid currency overvaluation that price up exports. In Japan, deregulation is likely to be gradual, and companies will keep downsizing by attrition rather than through huge layoffs.

NO HARD LINE. Germany's attitude is typical. Still one of the world's highest-cost producers, the country is bleeding jobs abroad, resulting in unemployment of nearly 11%. Overregulation and steep tax rates stunt economic growth, projected at barely 1.5% this year. But Germany has no intention of radically speeding up deregulation and layoffs. Klaus Friedrich, chief economist at Dresdner Bank, believes German leaders should continue trimming the social safety net—but not too fast. Germans point with horror to the crime, drug use, homelessness, and poor public education that Americans endure. "We would not trade places with the U.S.," says Friedrich.

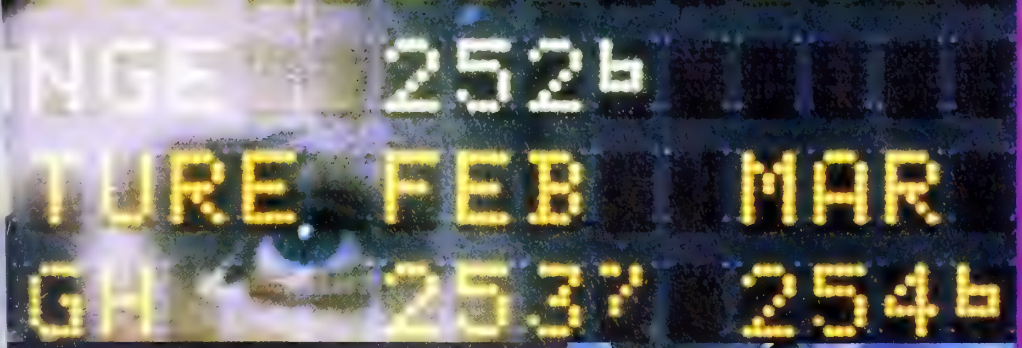
The Italians agree. Angst is running high in a country that enjoyed nearly four decades of spectacular postwar growth. After recession hit in 1993, many private-sector companies have slimmed down, racking up productivity gains of close to 4.5% a year while r wages barely budged. Now, Italy m shrink its bloated public sector, wh accounts for 44% of economic outp Yet while Italy's economists agree t government is too big, they don't lieve the U.S. model of cutting the v fare state to the bone is viable for Old World. "In Europe, the hard l doesn't work," says Giuseppe Roma, rector of Rome-based think tank Cen

Fear of public-sector downsizing r especially deep in France. When French last December paralyzed transit system with a 21-day strike wasn't 12% unemployment they w protesting. Their great fear is destr tion of the welfare state as France t to reduce its public deficit, at 5.5% GDP last year, to meet the 3% requi ment for European monetary union. deed, resistance to deep cuts in pul spending is likely to postpone that n step toward European integration.

Japan, too, approaches globalism ferently from America. That's not say the Japanese aren't suffering. M ufacturing companies are moving j offshore, and with an official unempl ment rate of 3.4% that's probably hi er in reality, lifetime employment mostly a fond memory. But most cor rate downsizing is occurring by at tion. And in the service sector, com nies still employ vast numbers of bar productive workers to maintain stabil In Japan's managed economy, "we lieve gradualism is better than ru ing," says Shinichiro Kobayashi, a ser manager at Bank of Tokyo. Also, like their U.S. counterparts, Japan CEOs are taking pay cuts, even thou at around $558,000, compensation the average Japanese corporate chief is nearly half the $927,000 average top U.S. boss makes.

It remains to be seen whether Buc nan will goad Corporate America ward a form of competitiveness th easier on workers. What's certain is t economic pressure from the fast-grow emerging economies will challenge First World well into the 21st centu Yet national economic styles are unli ly to disappear. It may well be t rather than follow the Americans' le Europe and Japan will find a differ way to serve the harsh taskmaster global capitalism.

By Joan Warner in New York, u bureau reports



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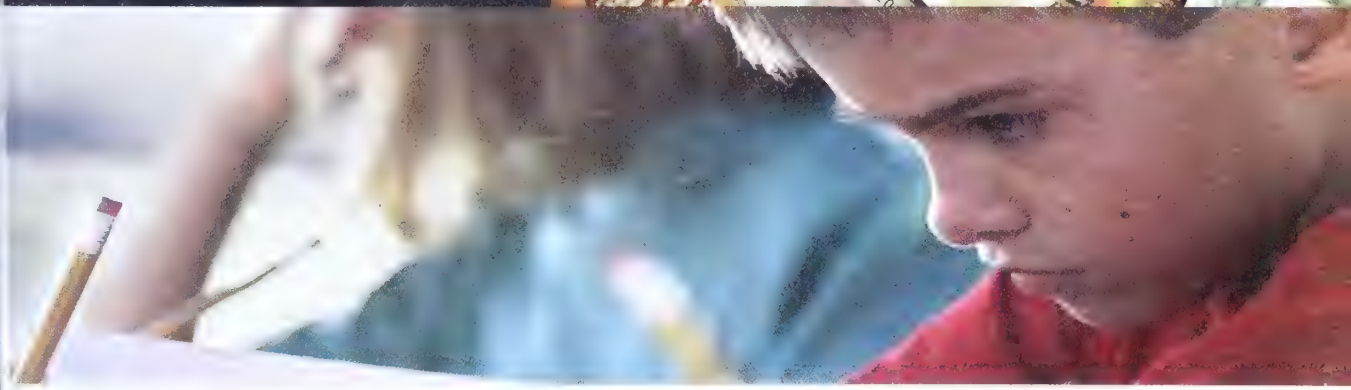

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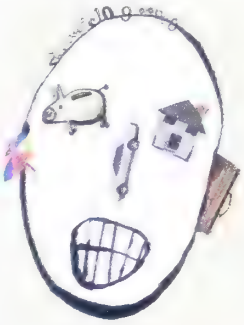
AMERICA, LAND OF THE SHAKEN

Cover Story

Pat Buchanan and the other bashers of business are on to something. Americans have a bad case of the jitters: Fully 67% say the American dream is getting further out of reach, and they're worried about a broad array of economic threats. Corporate America comes in for much of the blame from a public that gives it painfully low marks on a variety of measures—especially when it comes to how companies treat their employees. By a 78% majority, respondents large companies as only fair or poor on l workers.



That's a big failing in the eyes of most cans. By a stunning 95%-to-5% majority, companies should have a sense of respon not only to shareholders but also to worl local communities. If there's any consolat industry, it's that government is even les liked. More Americans blame public sper high taxes for their income woes than Bi ness and Wall Street.

NOT SUCH A WONDERFUL LIFE

Compared with what you had expected your life to be when you were younger, do you feel that your standard of living, work and career, and family life have turned out better than you expected, worse, or about what you thought they would be?

	BETTER	WORSE	ABOUT SAME	NOT SURE
Standard of living	40%	15%	44%	1%
Work and career	39%	20%	38%	3%
Family life	44%	17%	38%	1%

SLIPPING FAITH IN THE FUTURE

Do you expect that your children will have a better life than you have had, a worse life, or a life about as good as yours?

	FEB. 1996	AUG. 1989
Better	50%	59%
Worse	16%	10%
About as good	26%	25%
No children/not sure	8%	6%

IT'S STILL THE ECONOMY, STUPID

How concerned are you about each of these threats to prosperity in the 1990s—very concerned, somewhat concerned, not very concerned, or not concerned at all?

	VERY	SOMEWHAT	NOT VERY	NOT AT ALL	NOT SURE
Decline in economic growth	44%	42%	8%	6%	0%
Unemployment	52%	29%	10%	9%	0%
Inflation	45%	36%	12%	6%	1%
Foreign competition	36%	36%	15%	13%	0%
Another stock market crash	26%	30%	24%	19%	1%

RUNNING HARDER

For most Americans, do you think the American dream of equal opportunity, personal freedom, and social mobility has become easier or harder to achieve in the past 10 years?

Easier	31%
Harder	67%
Not sure	2%

BLAME WASHINGTON AND BUSINESS

Government statistics show that incomes for many workin cans have stayed flat for 15 years. Would you say that each following is a major reason, a minor reason, or not a reaso for the phenomenon?

	MAJOR	MINOR	NOT REA
Increased government spending	72%	20%	7
High taxes	66%	25%	8
The decline of the manufacturing economy	59%	32%	8
Increasing global competition	52%	35%	11
Excesses of big business and Wall Street	46%	36%	15
Declining membership in labor unions	28%	39%	30

LESS CONFIDENCE IN THE BOSS

As far as the people running big businesses are concerne you say you have a great deal of confidence, only some co or hardly any confidence in them?

	FEB. 1996	FEB. 1995		FEB. 1996
A great deal	12%	19%	Hardly any	26%
Only some	60%	51%	Not sure	2%

BOOS FOR CORPORATE AMERICA

How would you rate large companies in America on each following?

	EXCELLENT	PRETTY GOOD	ONLY FAIR	POO
Making good products and competing in a global economy	14%	44%	33%	9
Training their employees to give them new job skills	8%	31%	40%	19
Providing reasonable wages, salaries, and benefits	4%	32%	47%	16
Planning for the long-term future	6%	28%	40%	25
Creating good new job opportunities	4%	26%	45%	24
Really caring about what's good for America	4%	20%	43%	33

What is the purpose of a corporation? 95% say some pr

	EXCELLENT	PRETTY GOOD	ONLY FAIR	POOR	NOT SURE
ing job security	3%	19%	36%	41%	1%
oyalty to their yees	3%	18%	38%	40%	1%

FOR RELIEF

ch of the following, please say if you agree strongly, agree hat, disagree somewhat, or disagree strongly:

	AGREE STRONGLY	AGREE SOMEWHAT	DISAGREE STRONGLY	DISAGREE SOMEWHAT	NOT SURE
S. government should use lower ɔ reward companies that create erve jobs and train s	54%	32%	8%	6%	0%
business executives seem to do ɔersonally as profits increase, but mployees get no benefit from rofits	53%	28%	12%	7%	0%
me I hear of a company downsizing ing off thousands of workers, about my own job as well as those le close to me	51%	28%	12%	7%	2%
many American companies are ng American jobs with low-paid in countries in Asia and Latin a	50%	26%	10%	12%	2%
uld increase import taxes or tariffs y products coming into this country ct American jobs from foreign ition	50%	24%	15%	10%	1%
ɔng run, free and fair trade is policy and will do more for ın jobs than protectionism ɔs to keep out products made	33%	38%	18%	9%	2%
al, what is good for business for most ıns	32%	39%	20%	8%	1%
government should use higher taxes ize companies that eliminate jobs, ants, or pay their executives extremely high sation	40%	27%	16%	17%	0%
are necessary for many companies ne more efficient and prepare e growth	17%	37%	22%	24%	0%

THE BOTTOM LINE

f the following statements do you agree with more ?

porations should have only one purpose—to make the ıfit for their shareholders—and their pursuit of that goal est for America in the long term 5%

porations should have more than one purpose. They something to their workers and the communities in ıey operate, and they should sometimes sacrifice ofit for the sake of making things better for their and communities 95%

A MINORITY OF LUDDITES

Which of the following statements do you agree with more strongly?

Rapid technological change is producing some pain and economic dislocation, but in the long run will be good for the U.S. 54%

or

Rapid technological change is causing severe job losses and is harmful for the U.S. 42%

Both, neither, not sure 4%

OVERPOWERING INFLUENCE?

Let me read you some statements about America in the 1990s. For each, tell me if you tend to agree or disagree:

	AGREE	DISAGREE	NOT SURE
On balance, business has benefited more than consumers from government deregulation	72%	25%	3%
Business has gained too much power over too many aspects of American life	71%	28%	1%
American business should be given most of the credit for the prosperity that has prevailed during most of the 1990s	55%	44%	1%
Most of the problems of American business are the result of unfair foreign competition	49%	50%	1%

NO MANIA FOR MERGER MANIA

There has been a massive wave of mergers and acquisitions sweeping the country. In general, do you think these mergers and acquisitions have been good for the country, bad for the country, or not made much difference?

Good for the country 12%

Bad for the country 42%

Not made much difference 43%

Not sure 3%

WHO'S TALKING

Are you presently employed full-time, employed part-time, unemployed but looking for work, retired, disabled, or something else?

Employed full-time 53%
Employed part-time 11%
Unemployed but looking for work 4%
Unemployed but not looking for work 4%
Retired 18%
Disabled 4%
Something else 6%
Not sure 0%

Edited by Mark N. Vamos

Survey of 1,004 adults conducted Feb. 23-26, 1996 for BUSINESS WEEK by Louis Harris & Associates Inc. Prior polls were of 1,250 adults on Aug. 25-29, 1989, and of 1,249 adults on Feb. 16-19, 1995. Results should be accurate to within 3 percentage points.

uld sometimes be sacrificed for the public good

MOVIES

FATAL SUBTRACTION?

Hollywood's creative accounting gets a rewrite

There truly is no business like show business. Hollywood enjoys accounting rules unique in American industry. How unique? Millions spent on executive salaries, failed projects, advertising costs, and even lunches can be counted as long-term assets, not expenditures. The remarkably pliant rules have allowed some companies to rejigger quarterly profits and balance-sheet entries with more ease—and less public outcry—than ordering up a happy ending for *The Scarlet Letter*.

That's about to change. An eight-man task force of public accountants, studio finance executives, and a Wall Street analyst has been quietly working since last year on new accounting rules that aim to reform the Hollywood numbers game for the first time in decades. The proposed reforms will be unveiled on Mar. 5 and could be approved by the Financial Accounting Standards Board, which dictates accounting rules for all U. S. companies, by yearend.

There's a lot more at stake than a footnote in a 10-K. If the most radical of the reforms being pushed by members of the panel are adopted, valuations for entertainment companies will undergo a seismic shift. Task-force member and Schroder Wertheim & Co. Managing Director David J. Londoner estimates entertainment companies could be forced to take more than $2 billion in immediate write-downs and that reported earnings could fall by as much as 15%, though stock-price mul ples will likely rise.

Reform has been brewing for seve years, as financial woes at such comp nies as Cannon, Carolco, and Ori caused investors to lose hundreds millions of dollars, in part because t accounting rules allowed these comp nies to obscure their true financial co dition. Last year, the FASB asked t task force to draw up new rules.

SCHMOOZER BLUES. Chaired by Spelli Entertainment Group Inc. Chief Fina cial Officer Thomas P. Carson, the ta force already has agreed to stamp o many of the abuses that have given vestors nasty surprises in the past. S dios will have only ten years to fu amortize a movie, for example; curre ly, they face no limits. Other chang may cramp many a schmoozer's style, such expenses as a producer's lunch t no longer will be lumped in with vag overhead costs but instead must be t to one project.

But the toughest reform on the ta is the one the industry-dominated ta force is as yet unwilling to make. Stud most unorthodox practice is the capit ization of exploitation costs. This l studios list as assets billions of dollars advertising that other industries mu count as expenses. The payoff: bloat

THE STUDIO NUMBERS GAME

Hollywood's unusual accounting rules are about to undergo their first reform in decades. The problem with current rules is that studios can routinely make profits look better than they actually are. Here's how the system can work:

1 Bigwig Pictures makes *Violent Death*, spending **$50 million** to acquire the story, hire actors, and shoot the movie.

2 The studio spends another **$40 million** to advertise and release *Violent Death*. The movie's reported cost climbs again as the studio adds on **$10 million** more to cover expenses from other films that were never released, plus costs related to everything from Bigwig salaries to paper clips. *Violent Death*'s cost now totals **$100 million**.

3 Bigwig faces a depressed stock price and investor pressure. It decides to predict that *Violent Death* will bring in **$1 billion** over the next 20 years from its release to home video, pay TV, regular TV, laser disks, and foreign markets. Because the studio says *Violent Death* will be making money for 20 years, Bigwig can take that long to subtract the film's bloated **$100 million** cost from its books.

4 *Violent Death* takes in **$200 million** in box-office and home-video revenue in the year it is released. After deducting **$20 million**, or that year's share of expenses, Bigwig shows an immediate **$180 million** profit. The studio's earnings and stock price jump. The remaining **$80 million** the studio spent on the film remains on Bigwig's books for years—as an asset, not a liability.

DATA: BUSINESS WEEK

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assets and fatter near-term profits.

The FASB and another group overseeing the task force are extremely uncomfortable with this practice, and sources say the powerful accounting mandarins ultimately will prevail on this point. After all, other industries (except for some catalog retailers) are barred from capitalizing—treating as an asset—advertising costs. "Most of us think that how we do the accounting makes sense," counters task-force member Peter Cyffka, senior vice-president of finance at Twentieth Century Fox Film Corp.

OVERBLOWN. The industry's rationale: Since movies are valuable for several years, studios should be allowed to estimate a movie's lifetime profit margin and show that profit immediately as the film takes in its first dollars at the box office. If not, even a blockbuster would show big losses in the year it was released, since box-office receipts don't cover production and advertising costs.

Here's how it works under the current rules: Movie executives can guess what a film's ultimate revenues will be as it takes in revenue from theaters, home video, foreign sales, and repeated TV airings. Then executives are free to choose a figure for the film's expenses, often adding in big charges for studio overhead and millions lost on unrelated, never-released projects. The film's bloated expenses are counted as assets and deducted from the studio's balance sheet bit by bit, for whatever number of years the studio chooses. The benefit of rejiggering estimates can be striking (table). "What companies have done is estimate revenues high and expenses low," says Londoner. "The majority have been responsible. [But some take] a bad quarter and make results look better than O. K."

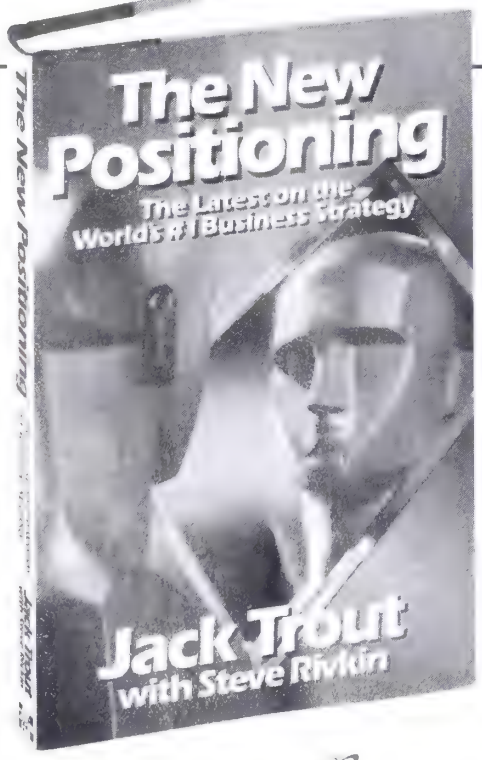
At stake: $2 billion in immediate write-downs and a 15% profit plunge

Londoner estimates that for the assets of a "typical" film company, from 40% to 55% of the reported value of already-released films is actually old advertising and overhead costs. That means such assets aren't really assets at all, but expenses that haven't yet been paid for. It adds up to a lot of qu tionable assets. Sony Corp. has $2 bill in unamortized film costs; Twentie Century Fox has $450 million on books. The only studios that would be affected: Walt Disney Co. and Ti Warner Inc., which follow more cons vative accounting practices to keep th balance sheets more pristine.

Although the reforms will force stu os to offer a more comprehensible p ture to bankers and investors, the hi profile issue of net-profit participat by writers and actors would not be fected. Those payments are based formulas agreed to in contracts.

Any change is an unwelcome pr pect for such players as Peter M. H man, former Carolco Pictures Inc. c "There's this attitude that [we're] g ting away with murder," says Hoffm who is mulling a public offering for new company, CineVisions, which p duced the recent *Johnny Mnemo* Changing the rules "will be devast ing." Maybe for those who've made big playing the Hollywood numb game. But for plain-vanilla investo the reforms will mean Hollywood fin speaks a language they can understa

By Elizabeth Lesly in New Y



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EXECUTIVE SUITE

THE PEPSI REGENERATION

Its top troubleshooter's tough new assignment: CEO

In the end, Roger A. Enrico couldn't resist the Pepsi Challenge. After years of on-again, off-again speculation over whether the 51-year-old heir-apparent to longtime CEO D. Wayne Calloway really wanted the top job at PepsiCo Inc., the answer came quickly. Less than a week after Calloway approached Enrico about the succession, the hard-charging marketing whiz agreed to take the helm at the soft-drink and snack-foods giant. "I doubt if Enrico's ever shrunk from a challenge in his life," says Ronald A. Rittenmeyer, who headed operations for Frito-Lay Inc. under Enrico.

If news of the 60-year-old Calloway's premature retirement startled many, Enrico's elevation came as little surprise: Since the early 1980's, the 24-year PepsiCo veteran has played a key role in turning around each of the company's three businesses. Thanks largely to those efforts, Pepsi is in better shape now than it has been in years. Enrico's latest success: the revival of Pizza Hut Inc. (box, page 72). With the worst problems stanched in the troubled restaurant unit, Pepsi's sales rose 6.6%, to $30.4 billion, in 1995, while operating profits rose 10%, to $3.5 billion. Since early 1995, Pepsi's stock has nearly doubled, to 64.

HITTING EAGLE. The question now: Will Pepsi's "Mr. Fixit" be able to rev up the overall company as successfully as he has juiced its individual businesses? Pepsi may no longer be struggling, but challenges remain. Sales growth of its main brands in the U.S. trails Coca-Cola Co.'s, fountain sales are slow, and international plans need new fizz. Observers expect Enrico to invigorate those efforts but also see risks. A hands-on manager, Enrico thrived in the autonomous operating units that the low-key Calloway fostered. But as Enrico brings his hard-charging [illegible] to the corner office, he has [illegible]d that his biggest problem [illegible] ply be stepping back and letting his managers manage.

Enrico refused to comment. But those who have worked with him describe Enrico as a brilliant, creative leader with great instincts. "He's a guy who can create change by seeing business differently than others," says Laurence M. Zwain, who left Pepsi's international restaurant unit in February to bec[illegible] CEO of rival Boston Market. Yet m[illegible] say he can also be unpredictable [illegible] volatile—though he has mellowed sin[illegible] 1990 heart attack. "Roger was a yo[illegible] hotshot throughout the years, with g[illegible] marketing talent," says Westingho[illegible] Electric CEO Michael H. Jordan, a for[illegible] No.2 at Pepsi. "He was a little in[illegible] tient, but he has changed a lot."

Enrico first earned his stripes in [illegible] early 1980's, after he took the top jo[illegible] Pepsi-Cola Co. When Coke launche[illegible] disastrous New Coke in 1985, En[illegible] brashly proclaimed that Pepsi had [illegible] the cola wars. He also mastermin[illegible] an aggressive plan to win share f[illegible] much bigger Coke, particularly am[illegible] young consumers, through a costly, [illegible] tention-grabbing ad campaign featu[illegible] Madonna and Michael Jackson. [illegible] moves revitalized Pepsi's brand.

Behind the public showmanship, E[illegible] co is also a tough-minded operating [illegible] ecutive. When he came to perk up F[illegible] Lay in 1991, the bloated division [illegible] grown complacent. Costs were too h[illegible] and rivals such as Anheuser-Busch [illegible] Eagle Snacks unit were cutting into [illegible] gins. Enrico slashed 60% of Frito's [illegible] agement and administrative jobs and [illegible] structured manufacturing. The mo[illegible] saved was poured into new-product [illegible] velopment and slick new ads. Today, [illegible] $5.7 billion division is Pepsi's most p[illegible] itable—and a defeated Anheuser [illegible] announced plans to shutter Eagle.

TOUGH TASKMASTER. Along the [illegible] Enrico also built a reputation as a h[illegible] taskmaster. Rittenmeyer recalls a l[illegible] draining presentation on Frito-Lay: [illegible] rico kept at him all day with tough q[illegible] tions. "At times he could be a bea[illegible] work for," he says. "At other times, y[illegible] follow him anywhere, even to war."

By 1993, Enrico had stepped b[illegible] from daily management. But th[illegible] were growing problems at P[illegible] si's restaurants: KFC's launch[illegible] rotisserie chicken was trou[illegible] prone, Pizza Hut had run ou[illegible] steam, and Taco Bell's [illegible] Healthy Border Lights was [illegible] nibalizing sales. Enrico jum[illegible] back into the fray.

So far, success has been m[illegible] visible in Pizza Hut's market[illegible] But Enrico has also bolstered [illegible] unit's financial health by shut[illegible] 300 underperforming restaur[illegible] and selling some 300 compa[illegible] owned stores to franchisees. [illegible] goal: to redeploy the freed-up [illegible] ital to the higher-margin be[illegible] age and snack businesses.

Still, fixing Pepsi's other res[illegible]

ROGER A. ENRICO

NOV. 11, 1944 Born, Chisholm, Minn.

1965 Finance degree, Babson College

1971 Joins Frito-Lay's marketing department

1983 Becomes president/CEO Pepsi-Cola USA

1991 Named chief executive at Frito-Lay

1993 Appointed vice-chairman of PepsiCo

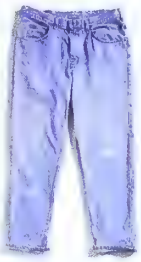
1994 Becomes chairman of PepsiCo Worldwide Restaurants

1996 Anointed CEO of PepsiCo

BOARDS Dayton Hudson, Prudential Insurance, United Negro College Fund, A.H. Belo

PERSONAL Married; one son, Aaron

→ IT FITS YOUR PERSONALITY LIKE A FAVORITE PAIR OF JEANS. AND SINCE IT'S A FULL-SIZE, YOU GET A LITTLE MORE ROOM IN THE SEAT. ←



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rants remains one of Enrico's major ch
lenges. And Pepsi-Cola, too, has l
much of the momentum it had when
was chief. Although domestic soft dr
sales volume grew 3.2% last year, Col
rose 6%. "He needs to pump fresh thi
ing into Pepsi," says Gary M. Stibel
the New England Consulting Gro
Fountain sales are still poor, partly
cause few restaurant chains want to t

HOW ENRICO PUT THE SPICE BACK IN PIZZA HUT

For a taste of what Roger A.
glitzy brand of marketing ca
reignite a business, look no
than Pizza Hut. In 1994, with th
market flat and a host of rival r
rants slashing prices, operating
the world's largest pizza chain p
21%. That slide dragged PepsiC
restaurant division to its first de
operating profits in 15 years. "It
certainly a wake-up call for us,"
lan S. Huston, chief executive of
Pizza Hut Inc. "We'd lost our w
tle bit."

Enrico took the toque at the restaurant division, which also includes Taco Bell Corp. and KFC, in November, 1994, after stints at Pepsi's beverage and snack-food units. He spotted a promising new product in the works—a pizza with a ring of mozzarella into the outer edges of the crus
decided to roll it out with a mas
flashy marketing campaign. Stuf
Crust Pizza became a $1 billion
in its first year.

COPYCAT PRODUCTS. It should c
no surprise that Enrico spiced u
Hut's advertising. After all, he's
who signed up Michael Jackson
donna to plug Pepsi-Cola. He po
more than $100 million into laun
Stuffed Crust and another produ
Tripledecker—and after years o
forgettable ads, the new campai
deft and catchy. "He came in an
'You have this wonderful produc
you need world-class advertising
people talking about it," says a
Hut spokesman. Commercials fo

ival's product. But Enrico has said he n't give up that fight.

Still, his biggest efforts will likely be oad, where Coke is miles ahead of osi. With inroads tough to make in stern Europe and Japan, Pepsi has ased on emerging markets such as azil and India. It has a long way to Coke now gets 80% of profits from rseas beverages, compared with 6% Pepsi. Just the kind of challenge to up Pepsi's Mr. Fixit.

By Lori Bongiorno in New York

atured odd celebrity pairings Donald Trump and his ex-wife, ating their pizza backwards, st.

ayoff came quickly. Stuffed lped Pizza Hut increase its hare from 25.6% to 27%, g to Chicago-based food-indus- altant Technomic Inc. Last za Hut's worldwide operating as up 40%, to $414 million, on les increase, to $5.2 billion. outlets open at least a year 4% in 1995, compared with a in 1994. Analyst Michael J. f NatWest Securities Corp. esti- at the company's operating in- l rise 11% this year, to $460 n sales of $5.5 billion. Pizza esents 17% of PepsiCo's total 13% of its operating profit.

UPPER CRUST
Pizza Hut's celeb ads, such as this one with Donald Trump and ex-wife Ivana, successfully launched the Stuffed Crust pie

Iut, says Huston, will roll out ne major product as well as ree line extensions each year. y, it upped the caloric ante her new offering, the Triple- hich packs a layer of cheese wo crusts.

cannot afford to lean on his lle. Although Pizza Hut's com- re all much smaller, they're ing out copycat products. And s of expanding Pizza Hut's nd delivery service, the chain work to rebuild its higher- ne-in business. But with Enri- iding the parent company, Piz- likely to sizzle for some time

By Stephanie Anderson Forest in Dallas

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INVESTMENT BANKING

SILICON VALLEY SEEDS ITSELF

Local firms are snaring IPO business that once went east

Steven P. Jobs has always been a pioneer. The co-founder of Apple Computer Inc. was no different last summer when he went shopping for bankers to manage the hot initial public offering of his latest venture, Pixar Animation Studios. Jobs wanted to hire San Francisco-based Robertson, Stephens & Co., a small investment bank specializing in high-tech clients, instead of going with the more prestigious New York firms. But, he wondered, would investors go for such an unusual choice? To find out, Jobs queried institutional investors, asking them whether they would be any less interested in the deal if Robertson handled it instead of a firm such as Goldman Sachs & Co.

The answer: "All of them said the West Coast guys would be as good. And half preferred it, because they treat them better," says Jobs. Robertson Stephens got the plum deal, and Jobs enjoyed a spectacular debut on Nov. 29 when the stock that day soared from 22 to 39. "I think it's a fairly significant milestone of the coming of age of the West Coast banks," says Jobs.

Those words are music to the ears of such specialty firms as Robertson Stephens, Hambrecht & Quist, Alex. Brown, Cowen, and Montgomery Securities. For these erstwhile also-rans, it proves that Wall Street no longer has a lock on the red-hot market for technology IPOs. That has intensified the already fierce rivalry among investment bankers. "The New York firms have always come in and just skimmed off the cream, taking only the very best offerings," says Sanford R. Robertson, chairman of Robertson Stephens. "That is breaking down very fast."

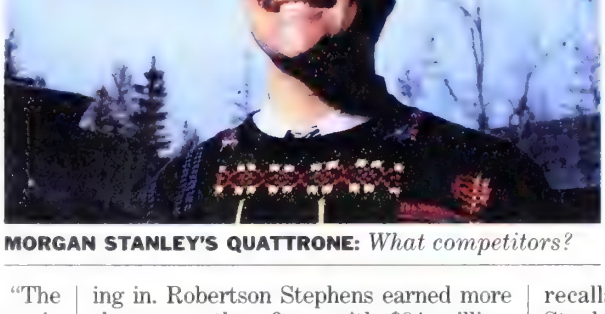
Driving the boutiques' success is the boom in high-tech business. The number of IPOs in industries ranging from biotech to electronics has increased from 47 deals that raised $914 million in 1990 to 219 deals that garnered $8.4 billion in 1995, according to Securities Data Corp. The market share of high-tech deals lead-managed by these mainly San Francisco-based investment banks has doubled. Their share went from a low of 18% in 1992 to more than 37% last year, says Securities Data. Mainstream firms, primarily New York-based, were lead underwriters for about 49% of high-tech IPOs in 1995, compared with a high of 70% in 1992.

More deals mean fatter fees: some $577 million for all high-tech IPOs in 1995. And the specialty banks are cashing in. Robertson Stephens earned more than any other firm, with $84 million. Morgan Stanley was next, taking fees of $68 million. Says Perrin Long, a securities industry analyst: "On a national basis, these [boutique] banks are becoming more important."

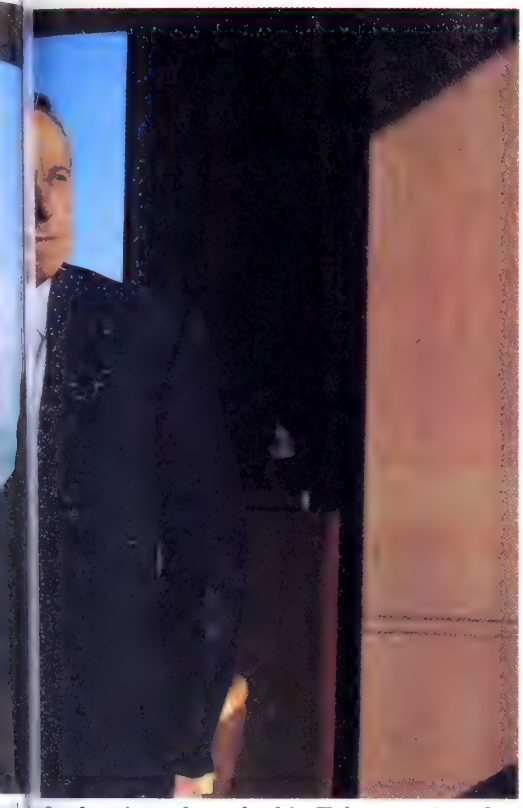
What's the secret to the niche firms' current success? They say it's their proximity to Silicon Valley and other tech industry headquarters. It also helps that they are as nerdy and sessed by technology as thei ents. Companies want to k that their bankers' researc steeped in a thorough un standing of the companies the technology. "Technology f through the veins of the pe who work here," says Cris M. Morgan, Hambrecht & Qu co-head of investment bankin

REVENGE? That hasn't stop the big banks, which increasi are chasing even small tech d When Arbor Software C went public in November, observers didn't expect the r est $29 million IPO to attract Street attention. Morgan Sta which says it does plenty of s IPOs for industry leaders, fou hard to win the deal, even ag ing to negotiate its fees. "I surprised Morgan was even in ested, given the size of the d recalls Arbor's chief financial off Stephen Imbler. "But they showed they were really hungry."

Hunger can turn to competitive s ing. Competitors say that Morgan S ley downgraded a potential client a it lost that company's underwriting b ness to a rival. Morgan Stanley was fered the second slot behind Robert Stephens on a deal for Gilead Scie Inc., a biotech company in Foster



MORGAN STANLEY'S QUATTRONE: *What competitors?*



Not only do they know the neighborhood, the niche firms boast, but they are just as nerdy and tech-obsessed as their clients

SPECIALTY BANKER ROBERTSON AT HIS SAN FRANCISCO HEADQUARTERS

f., that issued stock this February. er failing to win the offering, Morgan ley analyst Eric M. Hecht reduced ad's stock from "outperform" to utral." Robertson Stephens CEO ael G. McCaffery says: "It appeared he parties involved that these events e linked."

lecht says that's "a ridiculous accusa- " He began recommending Gilead in 1992 when the stock was 12 and ngraded it in late January because it ed to a heady 41, gaining 16 points wo months. If there's bad blood, it's rently news to Gilead's chief execu- , who recently spoke at a Morgan ley conference. "There is no relation veen the underwriting and my rec- endation," says Hecht.

espite the Gilead loss, the New firms aren't about to be blown y. IPO market leaders Morgan Stan- and Goldman Sachs still control most e high-profile technology business. k P. Quattrone, who heads Morgan ley's global technology group in lo Park, Calif., says a major weak- of the niche banks is their limited e. Former boutique banking clients as Chiron Inc. and Sun Micro- ems Inc. left specialty banks when sophisticated financial services be- necessary. "We do not view them mpetitors," says Quattrone. "They have the global reach of Morgan ley, and they don't have the high-end capabilities for complex transactions. We are the lead manager and they are the co-manager [on IPOs], and it has never been any other way."

NO DICE. Such an arrogant attitude could be a turnoff to potential clients. But the big banks have turned bravado into a selling point—even refusing business if they don't get top billing. When Cybercash Inc., an Internet financial services company, went public in February, Morgan Stanley was offered the No. 2 position behind Hambrecht & Quist. But the firm walked away from what became a wildly successful deal rather than play second fiddle. Says Cybercash CEO William N. Melton: "I understood their position and went on without them." Jobs said it was the same thing with Pixar. "They [Morgan and Goldman] either wanted to be No. 1, or they didn't want to play."

Quattrone says Morgan withdrew from the Pixar competition because the deal didn't "fit our risk profile." He contends the firm doesn't want to be involved in deals if it can't make sure that the offering will go well. "As a co-manager, you don't have control over pricing, timing, or how to position a company," he says. "We don't want to devalue the [Morgan Stanley] brand."

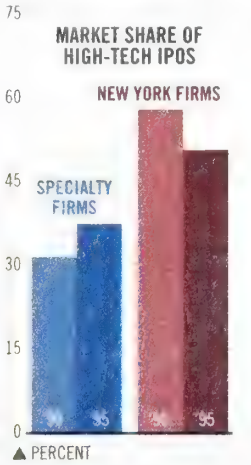
There's no question that many executives at startups revere such sterling names as Morgan or Goldman, which attract investors. They "carry a certain level of prestige not enjoyed by the other banks," says venture capitalist Peter J. Barris, who is on the board of UUNET Technologies Inc., an Internet company Goldman took public. Adds Peter L. S. Currie, Netscape Communications Corp.'s chief financial officer, who relied on Morgan Stanley to do a sizzling 1995 IPO: "They bring throw-weight to the investment process."

To counter that weight, the high-tech boutiques have beefed up their staffs to handle sophisticated transactions. The niche firms are also spreading out, going after international technology markets. Robertson Stephens plans to open its doors in London this April. Montgomery Securities will expand to New York and Boston. And Hambrecht & Quist announced in January a joint venture in Europe. Crows Daniel H. Case III, H&Q's CEO: "Specialization is winning worldwide. We're unstoppable if we execute right." At least as long as the tech market stays hot.

By Linda Himelstein, with Kathy Rebello, in San Francisco and Leah Nathans Spiro in New York

HIGH-TECH DEALS HAVE SOARED...

...WITH GAINS BY SPECIALTY FIRMS...



DATA: SECURITIES DATA CO

...RANKING HIGH ON TECH UNDERWRITING LISTS

High-tech IPO managers, full credit to lead	Deal proceeds- In millions
1. ROBERTSON STEPHENS	$1,091
2. MORGAN STANLEY	1,043
3. ALEX. BROWN & SONS	748
4. GOLDMAN SACHS	728
5. HAMBRECHT & QUIST	662
6. MERRILL LYNCH	589
7. LEHMAN BROTHERS	381
8. MONTGOMERY SECURITIES	337
9. J.P. MORGAN	326
10. DONALDSON, LUFKIN & JENRETTE	252

High-tech deals include biotech, communications, computer equipment (hardware and software), and electronics

OIL AND GAS DEALS

MUSTANG MAY HAVE TAKEN INVESTORS FOR A RIDE

Regulators have seized its books–and the founder is in hiding

In December, 1994, a crowd of 150 gathered at the Four Seasons Hotel in Beverly Hills, Calif., to celebrate the holidays and another successful year for their employer, Mustang Development Corp., and its brokerage affiliate, Columbus Financial Inc. With five open bars and a 25-piece band, the mood was joyful. That year, Columbus brokers had sold $30 million worth of Mustang's limited partnerships in oil and gas leases. The company was apparently so flush that its founder, Neal B. Stein, gave away a new BMW in the evening's raffle.

Stein, jovial in an expensive suit with cigar in hand, gave no hint then that questions were beginning to be asked about his activities. Those queries would lead to accusations that Stein had been perpetrating one of the largest financial frauds in the state's history.

The Securities & Exchange Commission and other regulators began to subpoena documents in January, 1995. Stein smilingly continued to assure brokers and investors that everything would be fine. But in October, 1995, the company's books were seized by the U.S. Postal Inspector and the California Corporations Dept. In February, 1996, the U.S. District Court for the Central District of California appointed a temporary receiver to determine how much of the $150 million investors had entrusted to Mustang might be left. The SEC, the Justice Dept., and the Internal Revenue Service are also said to be looking into Mustang. Regulators decline to confirm or deny any investigation.

HOLED UP. Thousands of investors, many of them elderly, who bought Mustang partnership interests were assured by brokers that their investments were safe, that they were backed by zero-coupon Treasury bonds, and that they had had uninterrupted annual payouts of 8% to 12%. But some evidence suggests Stein may have been operating a classic Ponzi scheme—paying early investors off with new investors' dollars.

Top Columbus salesmen and other former Stein employees claim that by 1994 assets in the accounts of all the limited partnerships were commingled. Of the $30 million raised in 1994 by Mustang, less than 10% is now believed to have gone into the oil and gas investments outlined in the partnerships' prospectuses. According to the sworn statement of John Klingenmeier, former chief financial officer of Columbus Financial and controller of Mustang, the Treasury bills were sold in 1994 and 1995. Investor funds, the evidence indicates, were used not only to pay off old investors but to support a lavish lifestyle for Neal Stein and his partner, Cary Greene. Greene could not be reached for comment. According to sources, Stein was paying his own expenses—right down to the rent on his Malibu retreat—directly out of Mus funds.

BULLOCK, 70: *They "put on a good front"*

Stein is doing little to clarify th Holed up in Malibu before the rece was named, Stein told associates he chanting Buddhist prayers for hour end. Says one source who spoke or condition of anonymity: "I still get same answer—that everything's goin be all right." Two civil suits have filed against Stein, one demandin accounting of funds and another alle fraud, but the governm hasn't charged him wrongdoing. Through lawyer, G. Richard Gr Stein declined to comm for this article.

Mustang's troubles very well go back to foundation in 1987. A eight years of working small West Coast broke houses, Stein joined M D. Seigel, who had rela in the oil business, Alexander L. Kahan. began marketing oil-and-gas-lease l ed partnerships.

HIGH LIVING. By all accounts, the ch matic Stein, who ran Mustang, h knack for firing up salesmen and ing investors. "These people put good front," says 70-year-old Willie lock, a retiree who invested $25,000 Mustang. Stein lived in a $2.3 m house and drove a fleet of exper cars including a Bentley convertibl

Mustang's and Stein's fortunes b to turn in 1992. Kahan and Seige

A BEVERLY HILLS PONZI?

1987 Neal Stein opens Mustang Development in Beverly Hills, Calif. With partners Alex Kahan and Mark Seigel, Stein starts marketing oil-and-gas-lease limited partnerships.

1992 Kahan and Seigel quit, allegedly taking some choice Mustang assets.

1994 With the remaining properties unable to support payments to investors, Stein allegedly starts a Ponzi scheme, paying old investors with new investors' money.

MARCH, 1995 After the SEC and other regulators begin a probe, Mustang halts the marketing of new limited partnerships and stops payments to investors.

AUGUST, 1995 Investors sue Mustang.

FEBRUARY, 1996 A second investor suit alleges fraud. U.S. District Court names a receiver to assess Mustang's assets.

DATA: BUSINESS WEEK

rted. According to the sworn testi-
ny of a former Columbus sales exec-
ve, they "converted a substantial
ount of Mustang's assets." Oil and
s experts say many of the remaining
perties are in areas that generally
d to have poor returns. Kahan and
gel have had run-ins with regulators
he past. In December, 1995, the two
re charged by the SEC with defraud-
investors in the oil-and-gas-lease
ited partnerships they sold after leav-
Stein. H. Thomas Fehn, a lawyer
Seigel and Kahan, insists that his
nts have nothing to do with Mus-
g's problems and that they are "hot-
ontesting" the SEC allegations.
By its final year of operation, it was
r that Mustang's 200 oil and gas
perties were not producing enough
ney to support payments to in-
tors. In court papers, former Mus-
g controller Klingenmeier swore that
stang received average monthly roy-
es of $100,000 from the properties
distributed up to 10 times that
ount to investors each month. To
himself from this downward spiral,
ciates say, Stein pursued far-out in-
ments—including a complex offshore
trage scheme that he promised as-
ates would produce a 40-to-1 return.
eld Neal in high regard," says a
er from Columbus' Orange County
e. "But he would spend a lot of
ey on this stuff and seemed to get
ing back."
hat, unfortunately, may well be the
of many of Stein's investors as well.
By Nanette Byrnes in Los Angeles

CHED: *Critics say Stein invested in oil and gas than he promised*

TAXES

CPAs: IS THERE LIFE AFTER TURBOTAX?

They're finding ways to replace revenues stolen by tax software

Until 1993, Duane Kent, a self-employed engineer from Boulder, Colo., would gather his checks and receipts like millions of other taxpayers, and march off to his friendly neighborhood certified public accountant to prepare his tax return. The following year, he started using TurboTax, a popular tax software package. Learning to use it was rough. But this year, he's confident he'll be able to punch out his 1040 in only two hours. "The tax return used to run me $300 in accounting fees," he says. "Now, it's $50 for the software, and I can do it myself."

Many CPAs these days are wondering how many of their clients are going to become do-it-yourselfers like Duane Kent. Sales of tax software are brisk. They zoomed 36%, to 2 million units, last year, according to PC Data, a Reston (Va.) company that tracks the field. The Big Six accountants aren't too worried because their clients' returns are usually too complex for popular software. But the majority of the nation's 400,000 CPAs practice in small firms, which traditionally have gotten more than half their revenues from individual taxpayers.

"FALSE SECURITY." The accounting profession, however, is rapidly becoming adept in replacing those revenues. The savvier CPAs are letting computers do the drudge work while they focus on more value-added advisory services. And they're making a big push to cater to small businesses.

Fortunately for the accountants, the new tax software is still imperfect. In mid-February, Intuit warned customers that some errors in its TurboTax program could lead to miscalculations relating to depreciation and IRA contributions. "These programs can give a false sense of security," says Pat Nielsen, a CPA in Boulder, Colo. "Last week, I was looking at a client's 1994 tax return, which he did on a computer program. The interest and taxes that were prorated on his home office were double-counted as itemized deductions."

Nielsen, who started her career at Price Waterhouse nearly 30 years ago, is typical of the CPAs who have embraced rather than fought technology. She helps small business clients to computerize their recordkeeping instead of relying on her to post debits and credits every month. Making heavy use of the Internet for E-mail communications, she does tax returns for U.S. citizens living overseas. "My niche is to provide better hand-holding than the national firms, and the companies like that because they want their executives to be treated well so they're not unhappy with their overseas assignment," she says.

ENABLER: *Nielsen helps clients computerize*

Many CPAs, like James Grey of Bloomfield Hills, Mich., are spending more and more of their time providing personal financial planning to clients who are looking for objective advice. "Clients ask, 'Should I buy or lease my car? How do I manage my finances for my kids' college education?'" His advice is welcome because he's not trying to sell a financial product.

Grey's tax practice also includes plenty of people who don't own a computer and don't want one. "We still have that niche of client, mostly the over-50 crowd, who aren't computer-literate," says Grey, who says technology has allowed him to downsize his staff. "I'm making more money with less volume."

But CPAs are banking mainly on the notion that technology will never be a substitute for judgment. Says Phil Bartmasser, a Beverly Hills CPA: "We've got clients who use TurboTax, but they still bring it in for consultation. I still think there's an aura of 'Gee, you're a CPA, maybe I'm missing something.'"

By Stuart Weiss in Portland, Ore.

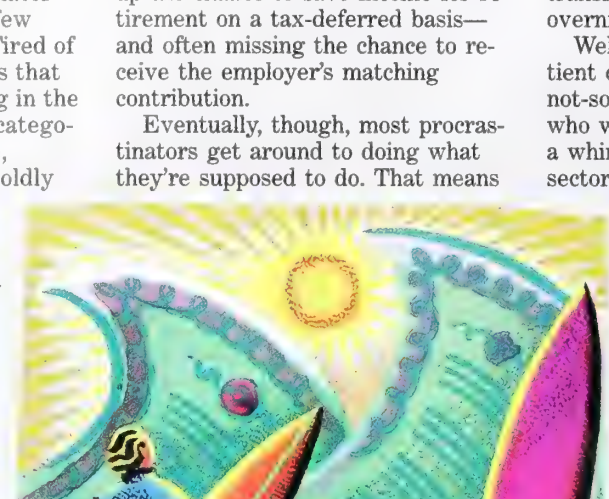
(FAR RIGHT) PHOTOGRAPH BY RAY NG

COMMENTARY

By Karen Pennar

CONFESSIONS OF A FINANCIAL BUNGEE-JUMPER

When it comes to personal finance, I'm a procrastinator *par excellence*. But a few weeks ago, I bit the bullet: Tired of staring at the measly returns that my 401(k) money was getting in the safe-but-sorry fixed-income category, I picked up the telephone, pressed a few buttons, and boldly remade myself into a financial bungee-jumper, plowing 80% of the existing and new contributions into a stock-index fund. Next, I'm going to reshuffle the money in my lazy individual retirement account, which could easily be worth triple what it is today if I had done the right thing years ago. I'll try an index fund, a small-cap fund, an emerging-market fund—the whole ball of wax. Just in time to be too late, you say? Doubtless many readers, including some of my colleagues, will guffaw as they read this and interpret my tardy activism as a sure sign that the market will go into a free fall. But I think the market has some growing room. Here's why:



Reason No. 1: *There are a lot of people out there just like me—or worse.* Yes, you would think that, with the outpouring of personal-finance advice in the media, all Americans were assiduously tending to their investments. But many of us are too preoccupied with other things—kids, parents, jobs, commuting—to devote the time that professional investors do to their portfolios. And even when we know what we should be doing, we put it off. And rationalize. "I'm waiting for the market correction" was my own favorite refrain.

But at least I'm in a 401(k). Isn't everybody, you say? No. In fact, only about 75% of workers who qualified for 401(k) plans in 1995, or 28 million people, participated in them, says David L. Wray, president of the Profit Sharing/401(k) Council of America. That's better than some years ago, but it still means that about one person in four is passing up the chance to save income for retirement on a tax-deferred basis—and often missing the chance to receive the employer's matching contribution.

Eventually, though, most procrastinators get around to doing what they're supposed to do. That means starting 401(k) plans and, more important, investing in the stock market. A tidal wave of money washed into mutual funds in January, and, says Wray, the "momentum" is there for the money to keep flowing—as more companies offer 401(k)s and as more people join up and save more of their incomes. The weight of all that money will keep stoking the market. The money in 401(k) plans was estimated to have increased by nearly 50% last year, to about $700 billion.

Reason No. 2: *Inertia is a powerful force.* For years, the wizards of Wall Street warned about the small investor and how panicky she was apt to be in times of stress. But such fears have proved unjustified. Just as it can take many people years to start a 401(k) plan or put money in the stock market, once they've made their move, they're likely to stay put. An investor who neglected to watch the ticker and track mutual-fund performance is not going to be transformed into a market maven overnight.

Welcome to the new world of patient capital—capital that's owned by not-so-savvy investors and savers who won't jump out of the market on a whim. Individual stocks and certain sectors will, of course, continue to fall in and out of favor—as money managers invest that money for the masses. But the market overall won't be shunned.

Reason No. 3: *Demography is destiny.* If you're like many other people, you're probably tired of reading about the baby-boom generation—the giant cohort now entering middle age, consuming less and saving more, worrying about their kids' college education, and generally changing the world as we know it. But big numbers have a big economic impact. Edward E. Yardeni, economist at Deutsche Morgan Grenfell/C. J. Lawrence Inc., predicts that the U. S. economy is entering a "golden period for both personal income and saving" as baby boomers move into the top-earning 45-54 age group. In fact, by 2000, he figures this age group could well number 20 million households and account for 60% or more of all income.

All of this is another way of saying something pretty simple: that there seem to be more buyers than sellers out there lately. I can hear the tut-tuts: But what about the economy? Of course, what happens to the economy matters. If interest rates climb, if inflation rebounds, then all bets are off, and I for one will be making a few adjustments to my retirement portfolio. But the key here is magnitude. A flurry in prices or an uptick in rates won't change my mind—and probably won't alarm other folks like me. Slowly but surely, millions of us are becoming armchair capitalists.

Senior writer Pennar is a busy baby boomer.

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BY GENE G. MARCIAL

PUTTING PEP IN REEBOK'S STEP

Reebok has become a huge brand name with fans worldwide. But not on Wall Street, where it was once a star. Its luster has faded—along with its shares, now at 27, down from 40 in early 1995. Part of the reason: several quarters of disappointing earnings, caused by a miscalculated focus on low-priced shoes at the expense of its above-$85 footwear. So why are some smart-money investors buying into Reebok International (RBK)?

CHEAP SHOES WERE THE SNAG

DATA: BLOOMBERG FINANCIAL MARKETS, FIRST CALL CORP *EXCLUDES RESTRUCTURING AND ASSET SALES CHARGES OF 58¢ A SHARE

"Whispers of a takeover," asserts a New York investment manager. He says "very reliable" Swiss sources say a German conglomerate has been looking into Reebok as a possible target.

His sources insist the Germans are preparing a mid-40s offer for the shoe and apparel designer and maker. The company has 75.6 million shares outstanding, of which officers and directors own 10%. Stockholders have griped about management—after Reebok plunged 35% in 1995's bull market.

Late last year, "several institutional investors publicly questioned management's ability," notes analyst Elizabeth Vandeventer of Standard & Poor's. They said profits at rival Nike had grown while Reebok results weakened.

But she thinks Reebok is taking adequate steps for a turnaround—clearing out low-priced shoes, revamping products, and improving the cost structure.

So far, most observers aren't convinced. Only 3 of the 10 analysts who follow Reebok are projecting a decent rise in earnings, says Chuck Hill of First Call, a distributor of brokerage research. Estimates for 1996, he notes, run from $2.35 a share to $3.25. For 1997, the range is narrower—$2.80 to $3. Reebok earned $2.64 last year.

Analysts blame poor earnings on softness in U.S. shoe sales. Reebok position is worsened by lack of a strong product line, says Jonathan Ferguson of Value Line. Reebok's efforts to improve its products won't take hold until late this summer, he says. So he thinks gross profit margins, which dropped to 37.4% in the fourth quarter, from 41.4% a year ago, will continue to come under pressure.

Reebok's woes, says the New York money manager, make it vulnerable to a takeover. Disenchanted shareholders, he believes, would welcome a savior. Among those with a big stake: Lazard Frères, Oppenheimer Group, and Fidelity Investments. Reebok spokeswoman Kate Burnham declined comment.

CONSOLIDATED MAY REALLY DELIVER

Same-day local couriers are zooming into the fast lane, but the bull market has left the stocks of these delivery companies in the dust. One of them is Consolidated Delivery & Logistics (CDLI), which went public on Nov. 21 at 13 a share and now trades at 9. Yet some pros are bullish. They argue that Consolidated will grow fast by acquiring efficient mom-and-pop operations. So far, it has bought 11 companies and is set to buy more this year.

One of the nation's largest couriers, Consolidated focuses on intra-city deliveries but also provides same-day inter-city air and ground service to businesses. The same-day industry has annual sales of $15 billion, while the two-day service, dominated by Federal Express and UPS, is a $6 billion market.

That may explain why FedEx and UPS in April entered the same-day intra-city business (through partners, partly because their vehicles aren't designed for such delivery). Betting among some pros is that Consolidated will become a FedEx or UPS target. "Consolidated becomes an attractive acquisition candidate for either," says Thom Albrecht, an analyst at A. G. Edwards & Sons. Rather than build their own same-day national networks, FedEx and UPS are apt to buy an outfit that already has one, he says.

"Consolidated is the best pure play in local delivery," says Albrecht. Chairman John Mattei doesn't quarrel with Albrecht's estimates: 85¢ a share 1996 on sales of $250 million and $1 in 1997 on $325 million, up from 199 estimated 40¢ on sales of $150 milli

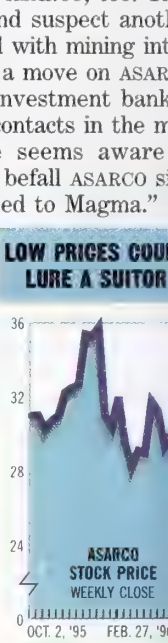
AHEAD: ANOTHER COPPER COUP?

Idaho investor John Simplot's tim was near perfect—at least in the c of Magma Copper. Several days bef Magma announced on Dec. 1 that A tralia's Broken Hill Proprietary had fered $2.4 billion for it, Simplot up his Magma stake from 5.2% to 9. (BW—Dec. 11). Guess what. Simp has done exactly the same thing w ASARCO (AR): On Feb. 22, he raised stake in ASARCO, one of the worl largest copper producers, from 5.1% 9.8%. Could history repeat itself?

Some pros who keep tabs on S plot's investments think so, and they started buying into ASARCO, too. Th sniff a takeover—and suspect anot foreign multinational with mining int ests will soon make a move on ASAR Says a New York investment bank "Simplot has tight contacts in the m ing world, and he seems aware something that will befall ASARCO si ilar to what happened to Magma."

Everen Securities analyst Vahid Fathi wouldn't be surprised if a suitor emerged soon. "The Street underestimates the need for rapid consolidation in mining," says Fathi. He adds that ASARCO is undervalued—and one of the most attractive buyouts around.

LOW PRICES COU LURE A SUITOR



DATA: BLOOMBERG FINANCIAL MARK

"If you use the blueprint of Magma-Broken Hill, ASARCO, now at 29%, worth 56 to 58 in a buyout," says F thi. No other mining stock, he notes, as undervalued as ASARCO, trading w below its book value of 37 a sha Even with no buyout, the stock worth 47, says Fathi. ASARCO ow 63% of Southern Peru Copper, a p ducer the analyst describes as a "ve valuable asset." ASARCO Treasurer T Findley says the company regards Si plot as a long-term investor but wo comment on takeover speculation.

ERIC HOFFMANN-RIA

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THE INTERNET

BROWSING FOR A BRUISING?

Netscape hustles to hold its own against Microsoft

For a man square in the crosshairs of mighty Microsoft Corp., James E. Clark looks pretty relaxed—or is it jet lag? The chairman and self-described traveling salesman of Internet wunderkind Netscape Communications Corp. has just returned to Silicon Valley from a whirlwind trip to sign up consumer electronics and telecommunications giants in Europe and Asia. But Clark has no illusions about his new adversary: "I'm totally paranoid about Microsoft—always have been, always will be," he says.

Clark may be racking up the frequent-flier miles for a long time. Far from simply cranking out nifty software for helping people cruise the Internet or run Web sites, Netscape is assembling the programming that corporations will use to create all sorts of new Net-based systems. His goal is nothing less than to make Netscape, with $81 million in annual revenues, the software leader in a new era of computing. And that puts it on a collision course with today's leader, $6 billion Microsoft. The battle could be Netscape's undoing—or the chance to prove it is worth the hefty $5 billion valuation that the market has bestowed.

While Clark has been circling the globe selling and using Netscape's stock to buy companies with key technology, Microsoft has begun its assault. It started last summer with the release of Internet Explorer, a browser to compete with Netscape's Navigator. Explorer can be downloaded for free and comes bundled with Windows 95 PCs. The giveaway is standard procedure—that's how Navigator became the No. 1 browser. But Microsoft has gone a step further: On Feb. 12, it brought out a free program for running a Web site that can be downloaded from the Net and will become part of Windows NT.

Sounds like a direct attack on Netscape. Microsoft's view? In the Net era, a Web program should be part of the basic software for any network server. "Things that many companies want become commodities," says James E. Allchin, senior vice-president of Microsoft's Business Systems Div. Microsoft's move made Netscape's stock plunge 6%, to 61½—a $340 million drop in market value. The stock has been drifting downward ever since. It's now trading in the 50s as a result of the growing Microsoft threat and a recent sell-off in many tech stocks. That's 40% off the high of $85, adjusted for a two-for-one split on Feb. 7.

Is Netscape, the Web rocket, about to fall to earth? Don't bet on it. Netscape has a two-year head start and is determined to keep its edge. The new Navigator 2.0 browser, for instance, adds new features—such as "frames," which more than one page be displayed time—that Microsoft will have to m Many Web developers boast that t sites use the latest Netscape inn tions and are best viewed with Nav tor. And despite brisk sales of PCs the Internet Explorer program, N gator's market share has risen from last August to more than 80% now.

Even more surprising: Navigator real moneymaker—comprising 55 Netscape's $40.6 million in fourth-qua sales. Even though individuals can d load Navigator for free, many pay u $49 for it anyway because they wan tra features or technical support. T especially true within corporations, n of which are building internal Web "intranets." Corporations make up 70 Netscape's business. Hewlett-Pac Co., for instance, licensed 100,000 c last year to outfit every desktop chine in the company. Says Hambrec Quist Inc. analyst J. Neil Weintraut: so-called browser is turning into a more significant market opener than ple expected."

"ALL THE RIGHT THINGS." As a re Netscape is riding high. It has po two straight profitable quarters since ing public last August—a feat for startup. Its $80.7 million in 1995 sal up from $1.4 million in 1994—bla past Netscape's own late-1994 fore of $26 million. That made Netscape fastest-growing software company record. And analysts expect incom hit $15 million for 1996, on revenues much as $230 million. "They're doing the right things," says Marshall Senk

WEB SPINNERS
Clark, with Andreessen, figures Netscape needs a six-month lead to stay safely ahead of the pack

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May 23	Albany, NY	June 26	New York City #2	July 24	New York City #3	August 13	Paramus, NJ
June 6	Liberty State Park, NJ	June 27	Buffalo, NY	July 25	Boston, MA	September 12	Atlanta, GA*
June 13	Rochester, NY	July 10	London, England	July 30	Syracuse, NY	October 5	New York City Championship
June 19	Frankfurt, Germany	July 18	Morristown, NJ	August 1	Chicago, IL		

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THE INTERNET

SURFING'S BIGGEST SPLASH?

AT&T's plunge into Internet services could cause a tidal wave

For more than a year, AT&T was the gorilla in the corner that nobody in the Internet business wanted to acknowledge. Everybody knew the long-distance behemoth was getting ready to jump into the online information services business, but few in the industry anticipated just how far AT&T would go. Indeed, since the company had flubbed its attempt at launching a proprietary commercial online service—the Interchange network, which it acquired for $50 million two years ago—some competitors wrote AT&T off.

Big mistake. On Feb. 27, the company announced an offer for its 80 million residential long-distance customers: Five hours a month on WorldNet, its Internet access service, free—for 12 months. After a year, users will pay what they would with today's top Internet service providers (ISPs): $19.95 a month for unlimited use. For non-AT&T long-distance customers, WorldNet access will cost $4.95 for three hours per month or $24.95 for unlimited monthly access.

The offer, which includes access via an 800 number, a free copy of the popular Netscape Navigator browser, unlimited customer assistance, and features such as filters to restrict where kids can roam, is reset [illegible] the bar for the Internet business. [illegible] when you factor in the software a[illegible]lls, such as AT&T's offer to cover [illegible] of any credit-card fraud that ma[illegible] when WorldNet members us[illegible] AT&T Universal Card on the Net, [illegible] the $19.95 regular price beats othe[illegible]w-cost Internet services.

"It's a wi[illegible]er," s[illegible] Emily Green, director of research fo[illegible]eople & Technology Strategies a[illegible] Forrester Research Inc. How big? Prior [illegible] the announcement, Forrester had p[illegible]ted that AT&T might snag 10 milli[illegible]sumers for WorldNet by 2000. N[illegible]een is upping her estimates. "We hadn't thought it would be so strong," she says.

AT&T's entry is bound to accelerate the race among phone and cable companies to get into the Internet-access business. On the same day that AT&T announced the consumer version of WorldNet (a business version has been available since last September), Sprint Corp. announced Sprint Intranet Dial Service, aimed at business customers. The phone company estimates that the market for Internet services in corporations could be $1 billion annually by the end of the decade, says Dominick J. DeAngelo, Sprint's vice-president for data product management. The No. 3 long-distance company is also expected to move into consumer Internet services later this year. Says DeAngelo: "We're knee-deep in this."

BABY BELL DEBUT. MCI Communications Corp., the nation's second-largest long-distance company and the first major phone company to offer an Internet service, is already getting $100 million a year in revenue from Web surfers, says Brian A. Brewer, senior vice-president for business marketing. He dismisses the AT&T come-on as a ploy to make up for its late entry. "We've been there but didn't find it necessary to grow our business that way," he says. For now, InternetMCI will remain at $19.95 for 20 hours a month. "We've been with this for a while—we'll remain competitive, and we won't lose share," he says.

MCI, which has teamed up with Microsoft Corp. to offer the M[illegible]soft Network to Web surfers, [illegible] change its plans sooner rather than [illegible]er. "It won't be long before the re[illegible]al Bell operating companies and [illegible] local carriers come out, too," says [illegible] Arlen, president of Arlen Commu[illegible]tions Inc., an online industry rese[illegible] group in Bethesda, Md. The next [illegible] entry: Bell Atlantic Corp., which is [illegible] to be readying an Internet access [illegible]tion by mid-April. And Nynex [illegible] may be close to j[illegible]ing in, too.

Further away [illegible] the cable-TV provi[illegible] Tele-Communica[illegible] Inc. is developin[illegible] Internet service [illegible] @Home, which wi[illegible] customers use a [illegible]cial version of [illegible] Netscape Navigat[illegible] cruise the Net [illegible] their TVs or per[illegible] computers. The [illegible]tem is being te[illegible] now, but @Home-[illegible] similar offerin[illegible] won't reach home [illegible]til the cable sys[illegible] are upgraded to [illegible]dle two-way data.

FEELING THE PINCH. Long before th[illegible]ble gang jumps in, however, the [illegible] mostly tiny ISPs across the U.S. wil[illegible] the pinch. The largest of them, Ne[illegible] On-Line Communication Services I[illegible] Reston, Va., saw its shares tumble [illegible] to $20.25, after the AT&T announcer[illegible] Shares of UUNet Technologies Inc[illegible] $4, to $28. These companies, says A[illegible] will now have to scramble to add [illegible] features and better customer service[illegible] risk extinction.

In the undecided column—for n[illegible] are the proprietary online services, [illegible] as high-flying America Online Inc[illegible]vestors took the AT&T move as a sel[illegible]nal, and AOL's stock fell nearly 10[illegible] $49.13. But AOL has 5 million custo[illegible] lots of content that's not on the Web[illegible]cluding publications such as BUSI[illegible] WEEK), and growing links to the Inte[illegible] The party line at the competing o[illegible] services is [illegible] AT&T's entry [illegible] positive: "It [illegible] bring more pe[illegible] online," says [illegible] Leonsis, presi[illegible] of AOL. And [illegible] be some pa[illegible] customers, too[illegible]

By Paul [illegible] Eng in New [illegible]

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internetMCI
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$19.95/mo. for 20 hours

Sprint
Consumer Internet service in development.
Pricing to be determined

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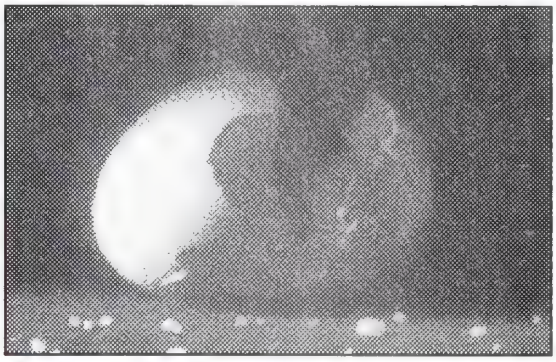

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TED BY PETER COY

E WAY INTO ARRHYTHMIC ART

H YEAR, SOME 250,000 ericans are struck down entricular tachycardia—nexpected erratic beat- of the lower, blood-ping chambers of the t. Using a single elec-e probe to locate the ce of the tachycardia ıg an episode may take s, and that delay can ıten the patient's life. ıt that may change with w device scheduled to ı clinical trials soon in U.S. The Arrhythmia ɔing System from Car-Pathways Corp. of Sun-e, Calif., is guided via a ter through the aorta nto the heart's left ven-. Once inside the cham-its eight arms spread

into the shape of a lemon-sized whisk, and 32 pairs of electrodes almost instantly measure how electrical impulses are being distributed throughout the heart.

Linked to a computer, the whisk locates damaged tissue, a cause of tachycardia, by detecting the tissue's abnormal electrical patterns. Doctors then insert another catheter that destroys the faulty tissue with heat generated by radio waves. Cardiac Pathways has conducted successful trials on four patients in the Netherlands, and the company recently received approval from the Food & Drug Administration for a preliminary study on 10 American patients, says Donald J. Santel, Cardiac Pathways' director of technical marketing. The U.S. tests are expected to continue for at least a year. The final product could be available in two years, says Santel.

ES R&D NEED UNCLE SAM'S HELP?

UBLICANS IN CONGRESS on the attack against ernment programs to er U.S. industrial re-ch. House Science Com-ee Chairman Robert S. ker (R-Pa.) cites a re- General Accounting Of- report that found gov-nent funding often n't necessary: Half of applicants turned down assistance from the mmerce Dept.'s Ad-ed Technology Program went ahead with their proposed projects even without federal funding.

A new study by the head of Rensselaer Polytechnic Institute's Lally School of Management & Technology casts doubt on the GOP position. Dean Joseph G. Morone says his study of innovation in companies indicates that government funding plays a bigger-than-expected role in fostering long-term research and development. Sure, he says, the companies might eventually do the research on their own nickel, but federal funds may significantly speed the process—and reduce companies' risk. One good example: Texas Instruments Inc.'s new display technology, in which images are created with a tiny chip containing hundreds of thousands of movable mirrors. The initial R&D effort was given a boost by the Defense Dept.'s Advanced Research Projects Agency.

A ROBOCHOPPER WITH ITS OWN EAGLE EYES

NEXT TIME YOU'RE LOST IN the mountains, look for a small helicopter the size of a station wagon flying your way—but don't look for a pilot. Your rescuer could be a robot helicopter from Carnegie Mellon University. Unlike other robochoppers, which are guided remotely by humans with TV monitors and joysticks, this one steers itself using global positioning satellites and advanced artificial-vision technology.

A team led by Takeo Kanade, director of the CMU Robotics Institute, based its Autonomous Helicopter Project on a commercial joystick-guided robot copter from Japan's Yamaha Motor Co. The CMU chopper navigates mainly from the U.S. government's global positioning satellites. But if it loses its satellite fix, it can determine its position with computer-linked video cameras that scan the terrain. Carnegie Mellon researchers say the choppers would be ideal for such boring tasks as inspecting remote utility lines. And they would fly fearlessly on hazardous missions. Perhaps Carnegie Mellon will even send a helicopter to explore a steaming volcano. Unlike its eight-legged predecessor, Dante, also developed at Carnegie Mellon, the flying robot is sure not to lose its footing.

INNOVATIONS

■ Kenji Uchino, an electrical engineering professor at Pennsylvania State University, has a new use for ultraviolet light. He works with so-called photostrictive materials, which move when hit by ultraviolet rays. With one such material—an alloy of lead, lanthanum, zirconium, and titanium dubbed PLZT—he has created a minuscule two-legged platform that walks. One potential application: moving specimens under electron microscopes, so that researchers don't have to break the seal on the vacuum chamber holding the specimen.

■ Integrated Wave Technologies Inc. of Fremont, Calif., says it has acquired Russian-developed technology that allows it to compress speech by a factor of 100 or more without noticeable loss of quality. The same technology is used for voice-recognition systems that are highly reliable for a limited vocabulary when trained to a particular speaker's voice, says Chairman John H. Hall.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwmar@businessweek.com

EDITED BY EDWARD C. BAIG

CHOOSING A GUIDE TO THE MONEY MAZE

It's enough to make your head spin: changing tax laws, arcane estate planning rules, skyrocketing college tuitions, and a virtual encyclopedia of investment products. Complicating matters is that everyone from mutual-fund companies, insurers, brokerage firms—even your next-door neighbor—wants to become your trusted adviser. Help!

Unfortunately, because financial planners come from all sorts of professional backgrounds, there is no one degree or license that guarantees skill. And despite its 25-year history, the profession remains loosely regulated. The good news is that things are changing. More colleges offer accredited financial-planning programs. Technology has enhanced the level of service. More important, the explosion of no- and low-load mutual funds and insurance products offers consumers greater choice. So if you know where to look for information and what questions to ask, reliable advice is available.

For most people, an adviser with investment, retirement, and estate-planning knowledge is the answer. These generalists come from a variety of backgrounds—legal, accountancy, brokerage, and insurance. But regardless of what specialized credentials a planner may hold, investment expertise is the major component of any good financial plan. You'll want to find someone who is a registered investment adviser (RIA) with the Securities & Exchange Commission, suggests Jeffrey Rattiner, director of professional development for the Institute of Certified Financial Planners (ICFP). Investment advisers, except in Colorado, Iowa, Ohio, and Wyoming, must also be licensed by the state.

However, these pedigrees alone mean little. Anyone with $150 can register with the SEC as an RIA. But registration makes potential fraud easier to detect and is necessary in the event you ever need to file a complaint. Besides registration, check a prospective adviser's other credentials. The most widely recognized is the certified financial planner (CFP) mark. Standards for the license have improved greatly in the last year. CFPs have a minimum of a bachelor's degree or more than five years of financial-planning experience. They have studied financial planning at an accredited college or university and passed a comprehensive 10-hour exam. The ICFP (800 282-7526) will provide you with a list of CFPs in your area.

PUSHING PRODUCTS? Another financial-planning designation worth exploring is the personal financial specialist (PFS). Only licensed accountants who have had three years of financial-planning experience and passed an exam may use the credential. Contact the American Institute of Certified Public Accountants (AICPA) (800 862-4272) for PFS referrals. An added advantage: All but 18 states prohibit CPAs from accepting commissions. It's usually best to work with a fee-only planner who has no financial stake in the products he or she recommends. For a list of fee-only planners in your area, call the National Association of Personal Financial Advisors (NAPFA) (800 366-2732). About 88% of NAPFA members also are CFPs, but be sure to specify.

Still, getting the scoop on compensation and industry credentials is a bare minimum. The most comprehensive screening service is available from the International Association for Financial Planning's new con hotline (800 945-IAFP IAFP's database inclu broad range of inforn on its members, such a education and areas of tise and how they c clients. The more s your request, the great likelihood you will be p ed with the names of s planners. A free detail formation sheet on each ner will be sent by ma

Depending on your you may want a planne a few additional l tacked after his or her

How to Check Up on Your Financial Planner

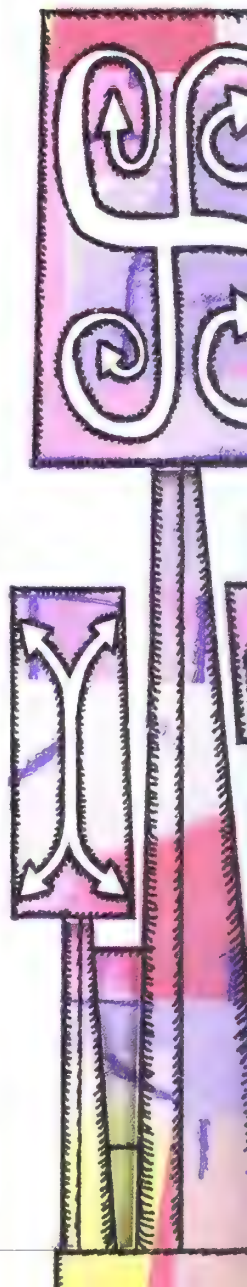
THE CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS 303 830-7543, ext. 219. Lets you know if planner is a licensed CFP or has a disciplinary record with the CFP Board.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS Web site: http://www.naic.org. Points you to state insurance commissioners who can check to see if the planner is licensed to sell insurance or has any insurance violations.

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSN. 202 737-0900. Gives phone numbers of state securities commissioners who monitor records of securities-licensed planners.

SECURITIES & EXCHANGE COMMISSION 800 732-0330. Checks whether a planner is a registered investment adviser. Provides other public records and handles consumer complaints.

DATA: ASSOCIATIONS, BUSINESS WEEK



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CLOSURE FORM. With a
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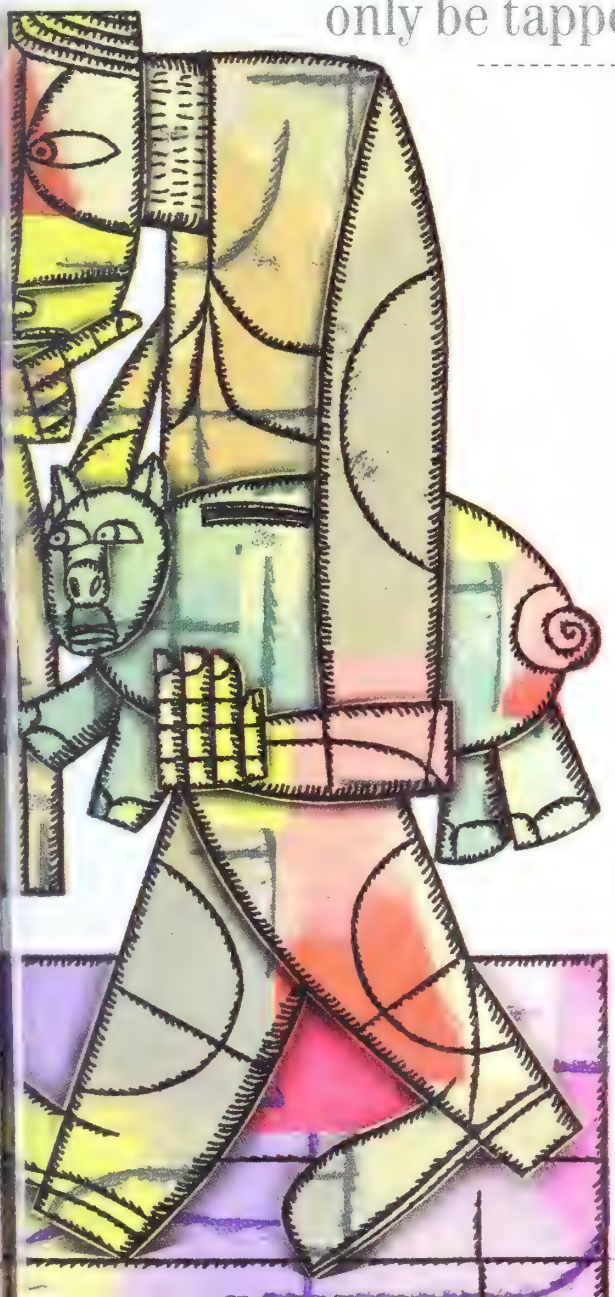
vill offer a free consulta-
says the ICFP's Rattiner.
ore you sit down and meet, ask prospective planners for a copy of their adviser disclosure form—better known as an ADV—Parts 1 and 2. Part 1 alerts you if the planner has had any legal or financial problems. The second part may reveal if an adviser is conducting another business on the side or accepts commissions.

The best way to find out a planner's area of expertise is to ask for profiles of long-time clients. "Most people are happiest when they can find a planner whose practice consists of a lot of people whose situations are similar to their own," says IAFP Executive Director Janet McCallen. Besides, a planner who claims to serve all kinds of clients may be dishonest, inattentive, or both.

When it comes to investment management services, ask what the planner's average and minimum account size is. "If you have $1 million to invest and a planner tells you their average account is $50,000, they may not be sophisticated enough," suggests Kaycee Kristy, head of the AICPA's division of personal financial planning. If the amount is far greater than what you have to invest, you might be considered a second-class citizen in their practice. A reputable adviser will turn you away if it's not a good match.

INVESTING Some of the best-performing funds can only be tapped by advisers



GET INVOLVED. Next, get a sense of their investment philosophy in plain English. While a planner won't be able to tell you what specific investments are right for you in this initial meeting, you should walk away with an understanding of the types of assets and the methodology being used.

During the first meeting, you also will want to request a sample financial plan. Good advisers will be able to show you a real-life example—the name of the client will be kept confidential—of the kind of work they will be able to do for you. Find out how often you can check in with the planner and whether you'll be charged for follow-up visits. Although you may be tempted to hand over your money and let the expert take charge, choose a planner who will actively involve you in the process so you understand exactly what's going on, says Bob Wacker, a fee-only planner in San Luis Obispo, Calif.

Because the chief purpose of working with a financial planner is to map out a long-term strategy, be skeptical of a planner who is aggressively pushing today's hot investments. Too many financial planners believe their job is to find this year's best funds, says Don Chambers, a principal of Mercer Global Advisors, a fee-only financial-planning firm in Santa Barbara, Calif. Some of the best-performing—and lowest-cost—funds on the market are not household names. These may be institutional funds not easily accessible to individual investors because of their high investment minimums. Most planners are affiliated with mutual-fund marketplaces such as Schwab Institutional and Fidelity Investment Advisor Group, which allow them to put your money into funds you couldn't purchase otherwise.

If your financial plan involves more than purchasing a few mutual funds, find out if the person you are considering works with other professionals. Do they have access to estate-planning attorneys, employee-benefit counselors, or tax experts? "We are trying to create the equivalent of a general practitioner who calls on specialists," says John L. Steffens, head of Merrill Lynch's private client group.

Licenses and credentials are important, of course, but as with a doctor, the most important element is how confident you feel with that person. "When it comes to your finances, it's worth searching for an adviser you can trust," Wacker says. And by asking a prospective candidate the right questions, your search need not seem as complicated as brain surgery. *Kerry Capell*

HAVE GYM, WILL TRAVE
Fischbach will bring th equipment to you

BLOOD, SWEAT, TEARS AND THE RIGHT TRAINER

Last fall, I asked my body-sculpting class instructor if he would be my personal trainer. I liked his no-nonsense teaching style and dedication to fitness and admired his chiseled body. So did he. Glancing in the mirror, he told me to ask him again in six weeks, after he had competed in a fitness contest. That should have been a warning.

We trained together a few times at my gym, but I quickly learned that I had made a big mistake. He often arrived 15 minutes late, and once didn't show up at all—without bothering to call. He seemed interested enough in my weight-training goals but not in my former ankle or back injuries. Despite my complaints, he urged me to use machines that hurt my weak spots. Finally, I requested that he develop a training program for me. He said I didn't need one. That's when I knew I had hired the wrong guy.

I hadn't taken seriously that there are guidelines to finding a good personal trainer. "Hiring a trainer is like hiring a doctor," says Debbie LaChusa of the American Council on Exercise. "Both need proper education and certification." The fitness industry, however, is unregulated and requires no standardized license to practice. Anyone can hang out a shingle and call him- or herself a trainer. Even for those who say they are certified, you have to wonder by whom.

FLEXIBLE. Ideally, you want a trainer who has an exercise-science background and has certifications by at least one of the three internationally recognized outfits: American Council on Exercise (ACE) (800 529-8227), American College of Sports Medicine (ACSM) (317 637-9200), or the Aerobic & Fitness Assn. (AFFA) (800 445-5950). These programs require recertification every two years.

But the trainer also needs to have the right mix of education, experience, and people skills. "I've seen trainers with a PhD in kinesiology look at clients and panic," says Bob Fields, an Indianapolis trainer.

Your goals will help you consider what type of background is important. Do you want to shed a few pounds or run a 10-kilometer race? Look for someone who has worked with clients with objectives similar to yours—one who won't push you to enter an amateur bodybuilding contest, if that's not your vision.

FITNESS

Convenience is another key concern. It's good to know that when your trainer knocks at your front door ready to work out, you're ready too, so you have no excuses. Trainer Eric Fischbach owns Door to Door Fitness in Chester, N.J. He outfitted a mobile home with exercise equipment so he can drive the gym right to customers' homes. Fischbach charges $60 per hour. Trainers generally charge between $35 and $100 an hour, depending on where you live and whether you train at home or in a
It's up to you how ofte
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week is typical.

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advises Alicia Goung
AFFA. Friends, doctors
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Remember, looks a
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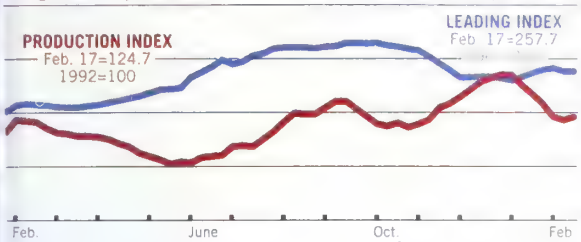
> "Hiring a trainer is like hiring a doctor. Both need proper education"

Business Week Index

RODUCTION AND LEADING INDEXES

Change from last week: 0.2%
Change from last year: 0.4%

Change from last week: 0.0%
Change from last year: 2.4%



ndexes are 4-week moving averages

: **production index** increased slightly during the week ended Feb. 17 ore calculation of the four-week moving average, the index continued to ; hitting 125.7 from 124.5. Increases in seasonally adjusted output of l and rail-freight traffic led the gain in the latest week.
: **leading index** was unchanged in the latest week. So, too, the unaveraged ex remained at 258.2. Higher stock prices offset a decline in materials prices.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/24) thous. of net tons	2,085	2,085#	2.0
AUTOS (2/24) units	134,693	121,298r#	–8.1
TRUCKS (2/24) units	125,930	121,431r#	6.5
ELECTRIC POWER (2/24) millions of kilowatt-hrs	59,905	62,780#	3.0
CRUDE-OIL REFINING (2/24) thous. of bbl./day	13,533	13,528#	1.5
COAL (2/17) thous. of net tons	21,641#	17,955	2.9
PAPERBOARD (2/17) thous. of tons	NA#	NA	NA
PAPER (2/17) thous. of tons	NA#	NA	NA
LUMBER (2/17) millions of ft.	435.5#	404.8	–0.5
RAIL FREIGHT (2/17) billions of ton-miles	25.2#	22.5	2.9

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
OCK PRICES (2/23) S&P 500	651.67	655.37	34.2
RPORATE BOND YIELD, Aaa (2/23)	7.13%	6.86%	–13.4
USTRIAL MATERIALS PRICES (2/23)	110.8	109.9	–2.0
SINESS FAILURES (2/16)	NA	NA	NA
L ESTATE LOANS (2/14) billions	NA	$507.1r	NA
NEY SUPPLY, M2 (2/12) billions	$3,658.1	$3,653.4r	2.0
TIAL CLAIMS, UNEMPLOYMENT (2/10) thous	386	366	10.9

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/28) $/troy oz.	397.550	396.800	5.5
STEEL SCRAP (2/27) #1 heavy, $/ton	144.50	144.50	1.4
COPPER (2/24) ¢/lb.	120.4	118.3	–13.1
ALUMINUM (2/24) ¢/lb.	76.0	76.0	–17.7
COTTON (2/24) strict low middling 1-1/16 in., ¢/lb.	81.33	81.70	–15.5
OIL (2/27) $/bbl.	19.63	21.05	5.8

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (2/27)	5.20%	5.20%	5.88%
IMERCIAL PAPER (2/28) 3-month	5.16	5.16	6.13
TIFICATES OF DEPOSIT (2/28) 3-month	5.16	5.17	6.13
ED MORTGAGE (2/23) 30-year	7.24	7.24	8.86
USTABLE MORTGAGE (2/23) one-year	5.39	5.40	6.63
ME (2/28)	8.25	8.25	9.00

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (2/28)	104.44	105.08	95.05
GERMAN MARK (2/28)	1.47	1.45	1.45
BRITISH POUND (2/28)	1.53	1.54	1.61
FRENCH FRANC (2/28)	5.02	5.01	5.10
ITALIAN LIRA (2/28)	1547.5	1575.5	1677.5
CANADIAN DOLLAR (2/28)	1.37	1.38	1.40
MEXICAN PESO (2/28)	7.545	7.525	6.030

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

ONAL INCOME

'ay, Mar. 4, 8:30 a.m.EST ▶ Personal ıe was likely up 0.1% in December at in January, according to the medi- ecast of MMS International, one of The aw-Hill Companies. Spending probably).6% in December and fell 0.2% in ry. In November, income rose 0.2% pending gained 0.9%.

DRY INVENTORIES

'ay, Mar. 5, 8:30 a.m.EST ▶ Manufac- inventories likely increased by 0.3% uary, on top of a 0.1% gain in ıber. Factory orders probably fell back uary, after rising an unexpectedly 1.3% in December.

PRODUCTIVITY AND COSTS

Wednesday, Mar. 6, 10 a.m.EST ▶ Nonfarm output per hour worked likely fell at a 0.5% annual rate last quarter, after rising 1.4% in the third. Unit labor costs probably rose at a 2% pace, on top of a 2.4% increase.

NEW HOME SALES

Wednesday, Mar. 6, 10 a.m.EST ▶ New homes likely sold at an annual rate of 650,000 in December and 600,000 in January. November sales totaled 649,000.

BEIGE BOOK

Wednesday, Mar. 6 ▶ The Federal Reserve will release its roundup of business activity, as reported by its 12 district banks.

INSTALLMENT CREDIT

Thursday, Mar. 7, 3 p.m.EST ▶ Consumers probably added about $6 billion in January. In December, credit rose $7.9 billion.

EMPLOYMENT

Friday, Mar. 8, 8:30 a.m.EST ▶ Nonfarm payrolls probably rebounded by about 300,000 workers in February, after the blizzard helped to pare 201,000 jobs in January. The unemployment rate probably slipped back to 5.6%, from 5.8% in January.

CONSTRUCTION SPENDING

Friday, Mar. 8, 10 a.m.EST ▶ Construction spending likely fell 0.5% in January, after rising 0.9% in December.

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HEWLETT PACKARD

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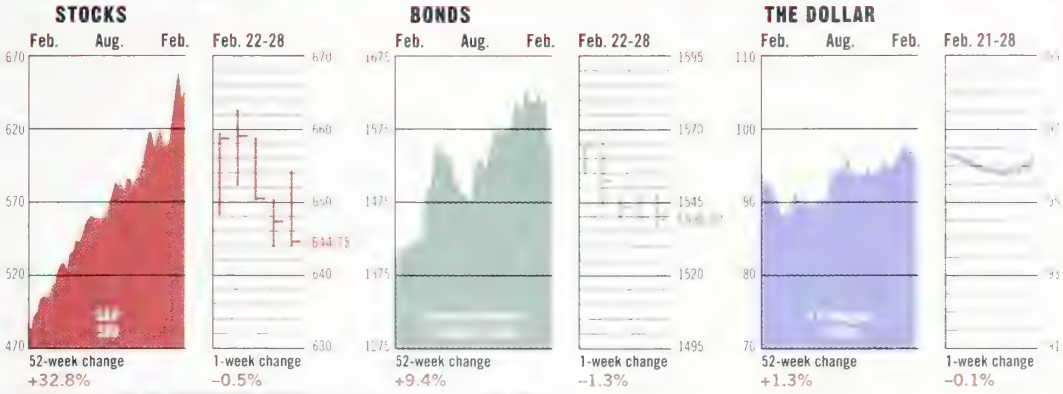
nvestment Figures of the Week

MENTARY

with cash from mutual-
investors, the stock market
d and the Dow Jones indus-
established a new high of
on Feb. 23. But under the
ure of a falling bond market
ising long-term interest
, the blue chips gave up the
and closed slightly down
e week. Midcap and small-
tocks managed to hold onto
gains. Even the good news
lation contained in the Jan-
producer price and con-
price indexes could not
he bond crowd to buy.



RKET ANALYSIS

TOCKS	Latest	% change Week	% change 52-week
ONES INDUSTRIALS	5506.2	–0.2	37.8
ZE COMPANIES (S&P MidCap Index)	229.8	1.2	28.6
COMPANIES (Russell 2000)	325.3	1.2	27.0
MPANIES (Russell 3000)	368.4	–0.1	32.5

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
N (FINANCIAL TIMES 100)	3738.2	0.3	22.9
(NIKKEI INDEX)	19,920.0	–2.2	19.9
TO (TSE COMPOSITE)	4947.2	–0.3	21.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.00%	4.94%	5.84%
30-YEAR TREASURY BOND YIELD	6.47%	6.37%	7.44%
S&P 500 DIVIDEND YIELD	2.15%	2.13%	2.67%
S&P 500 PRICE/EARNINGS RATIO	18.7	18.8	16.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	583.6	580.4	Positive
Stocks above 200-day moving average	69.0%	71.0%r	Neutral
Speculative sentiment: Put/call ratio	0.59	0.64 r	Negative
Insider sentiment: Vickers sell/buy ratio	1.96	1.75	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

IONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
IPUTER SYSTEMS	18.6	66.7	SUN MICROSYSTEMS	29.6	236.9	54 3/4
LINES	16.9	53.8	SOUTHWEST AIRLINES	22.3	77.7	30 7/8
AL AND GLASS CONTAINERS	16.9	9.1	CROWN CORK & SEAL	19.0	13.8	48 1/4
HINE TOOLS	16.7	19.2	CINCINNATI MILACRON	23.1	34.9	28
CIALTY APPAREL RETAILERS	14.3	24.5	CHARMING SHOPPES	47.6	–35.4	3 1/8

IONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
IEBUILDING	–6.2	15.0	CENTEX	–9.8	10.5	27 3/4
ES	–4.2	30.4	BROWN GROUP	–5.7	–61.2	12 1/4
SEHOLD PRODUCTS	–3.2	29.7	KIMBERLY-CLARK	–6.3	52.3	76 7/8
OHOLIC BEVERAGES	–3.0	17.1	ADOLPH COORS	–13.0	22.1	20
IONAL TELEPHONE COMPANIES	–3.0	29.9	GTE	–5.2	31.1	43 1/4

TUAL FUNDS

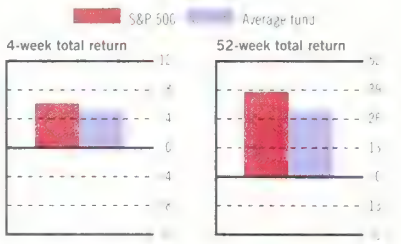
MORNINGSTAR, INC.

RS

eek total return	%
ITREND GOLD	43.6
IEER INDIA A	20.4
FUS AGGRESSIVE GROWTH	17.3
k total return	**%**
IS	94.0
R CAPITAL APPRECIATION	86.9
LITY SELECT ELECTRONICS	81.2

LAGGARDS

Four-week total return	%
UNITED SERVICES GOLD SHARES	–6.7
CALVERT NEW AFRICA	–5.0
STEADMAN INVESTMENT	–4.9
52-week total return	**%**
EV MARATHON GREATER INDIA	–19.0
STEADMAN TECHNOLOGY GROWTH	–17.5
AMERICAN HERITAGE	–12.3



ATIVE PORTFOLIOS

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mounts represent the
value of $10,000
d one year ago
portfolio

tages indicate
/ total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$13,655	$12,051	$11,986	$10,560	$10,180
+1.03%	–0.78%	–1.25%	+0.11%	–1.32%

on this page are as of market close Wednesday, Feb. 28, 1996, unless otherwise in-
industry groups include S&P 500 companies only; performance and share prices are as of market close Feb. 27. Mutual fund returns are as of Feb. 23. Relative portfolios are valued as of Feb. 27. A more detailed explanation of this page is available on request. r=revised

THE AGE OF ANXIETY

The campaign debate over economic anxiety is veering off into the wild blue yonder. Business-bashing and tariff threats are replacing balanced budgets and tax cuts. With the economy barely growing, the rhetoric could do real damage. The bond market is already throwing a fit, and the dollar is swooning.

There's no question that a lot of people have serious economic problems, to which Pat Buchanan is giving voice. Behind all the glorious statistics that show the U.S. doing just fine, thank you—low unemployment, low inflation, booming profits, and lofty stock prices—there are millions of families struggling to get by, with everyone but the dog out working. The voters attracted to Buchanan haven't had a real raise in 20 years, and even white-collar professionals are being downsized from their corporate perches. Some 11% of all college-educated men lost their jobs from 1991 to 1993. Downward mobility is a constant threat, if not a reality, for people who grew up thinking betterment was their birthright. Just about everyone has a sister, father, child, or neighbor who was laid off recently. No wonder people are edgy and insecure.

BACKWARD VISION

Much of Buchananism is the worst sort of isolationism and scapegoating. His campaign repudiates the values of an expanding entrepreneurial society for the crimped vision of a defensive America hemmed in by tariffs and electric fences. But Buchanan has struck a chord: Many people are suffering as the U.S. undergoes a wrenching transition toward becoming a high-tech, globally competitive nation. Even if he fades after his surprising third-place finish in Arizona, many of the problems Buchanan has focused national attention on will remain.

Economic anxiety may be the natural state of a society in transition, but there are steps to take without turning the U.S. into a xenophobic autarky. Here they are:

• CEOs should share the gains. They should copy IBM, which just boosted merit pay and bonuses by 8%. With profits up 38.2%, CEO Louis V. Gerstner Jr. shared the wealth generated by the higher productivity of all the company's employees. A new BUSINESS WEEK/Harris poll shows that 95% of the public believe companies have responsibilities to their employees and communities that go beyond making profits. That may be. But companies can best fulfill their social responsibilities by paying for performance and training their employees. In the past four years, with profits booming and productivity high, wages have barely risen. The time has come to share the wealth. IBM, Nucor Corp., and other companies are offering their employees a real share of the gain. Stock options, bonuses, and variable merit pay that reach to the lowest rungs of the company are the way to do it.

• CEOs should share the pain. CEOs are perceived as the enemy by a frightening number of Americans (page 64). It was a delusion to believe that chief executives could expre difference to the pain of layoffs without paying a pc penalty. It was hubris for CEOs to award themselves pay packages when their employees' wages stagn Boards would do well to penalize poor leadership and egy. Equity and fair play are critical values in America and there is political danger in tampering with them.

LOOKING FORWARD

• Government policy must boost human capital. Tax ince are currently geared to increasing bricks and morta knowledge. In an Information Age, this whole system centives is archaic. There are accelerated depreciation R&D tax credits, and a whole host of other carrots to pr building things, but few tax incentives for improving l edge and skills. The federal government spends billions training programs, few of which are effective. Take the ey, turn the programs into training vouchers, and give to individuals and companies, who are close to the job kets. For youngsters, getting into college is critical. college the defining wedge between haves and have-r America, tax incentives, such as expanded IRAs, for t should be considered. Already, two-thirds of all high graduates go on to some kind of college or vocationa gram, double the rate of the '70s. More aid would he most needy.

• Boost growth. Of all the things that should be done crease wages and curb inequality, nothing is more imp than simply raising the economic growth rate. The tion to economic anxiety is not to redivide scarce job opportunities, but to expand them. For 100 years foll the Civil War, as America moved from agriculture to try, the economy grew at 3.4% annually and wages do every 35 years. Each generation did better—until th when economic expansion slowed to 2% and average growth stopped cold. That extra margin of lost g would have relieved a lot of economic anxiety. With in low and productivity high in manufacturing and pro services, there is room for raising growth to at leas Getting back to basics by cutting government spe regulation, and taxes would be a good first step. Ru monetary policy to allow for faster economic growth be a solid second.

America needs optimism to breathe the air of dem and opportunity to redeem its belief in individual mer mobility. With its new competitiveness in world marke superiority in information-based industries, and its cre heterogeneous population, the U.S. stands to make the 100 years as much of an "American Century" as the pas It will take action from corporate leaders, a change of tives from Washington, and faster growth to cure the c economic anxiety. But these are remedies that can work not destroy the open society.

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ssively accept the situation. Present the same
ncoln Continental, however, and it rolls up its
and goes to work.

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NESS WEEK
March 18

A SPECIAL SECTION ON SMALL BUSINESS PAGE 70

BusinessWeek

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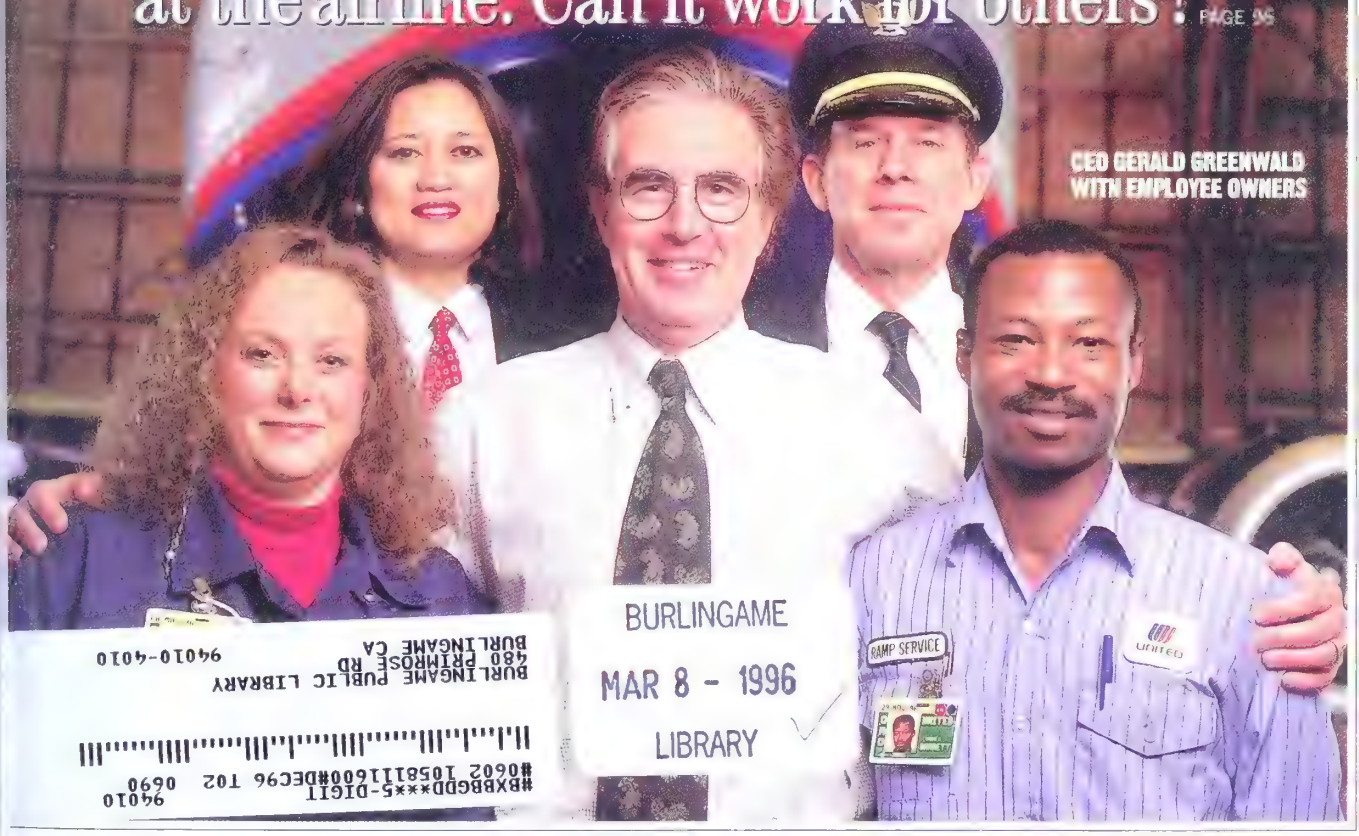
UNITED WE OWN

Employee ownership is fueling a turnaround at the airline. Can it work for others? PAGE 96



CEO GERALD GREENWALD WITH EMPLOYEE OWNERS

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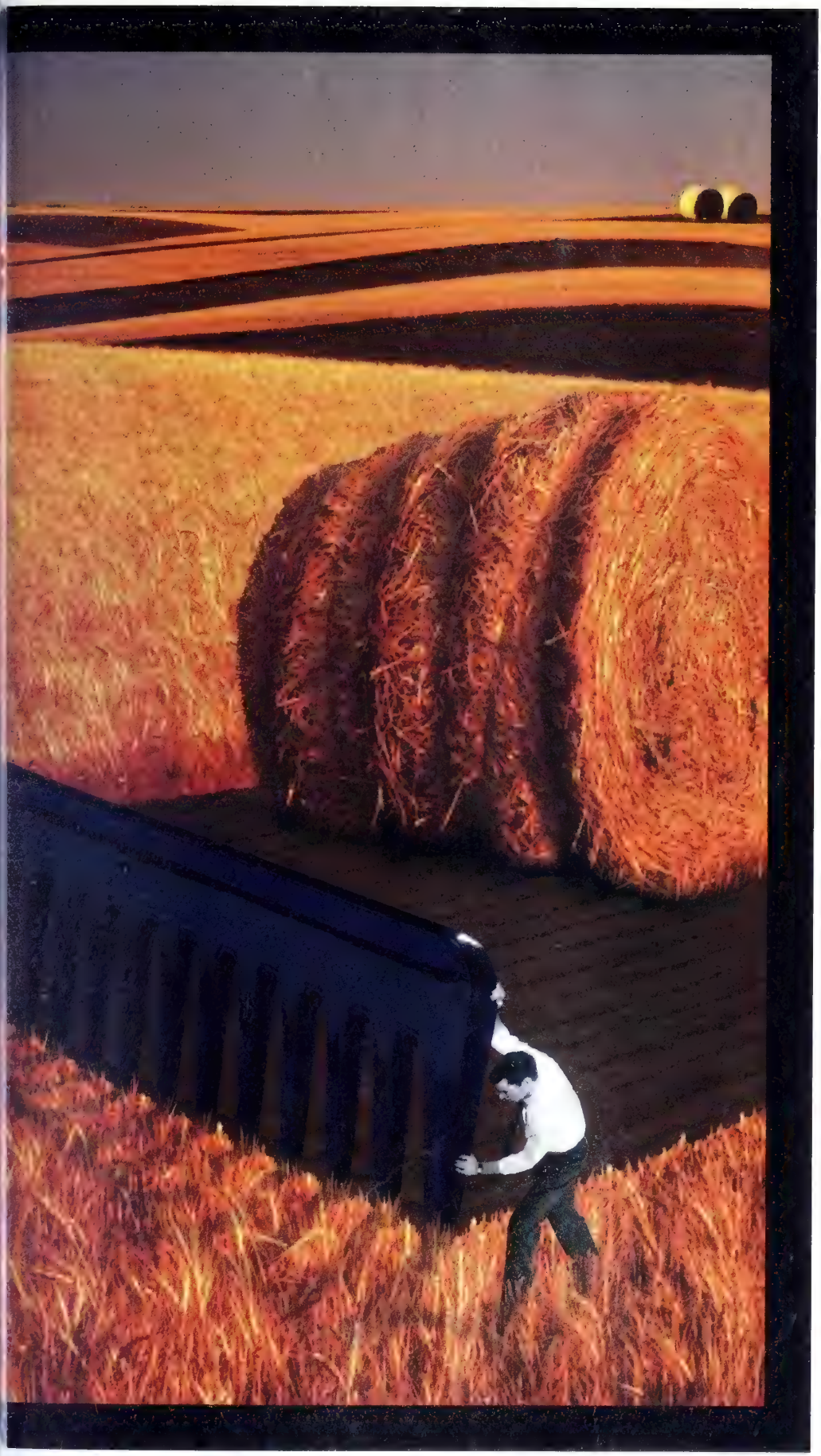

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "Bob Dole is the tax collector for the welfare state."
—Representative Newt Gingrich (R-Ga.), 1984

"Bob Dole is a close personal friend and great leader."
—Speaker Gingrich, announcing his primary vote for Dole, 1996

SLUGFESTS

CONGRESS' LATEST DRUG WAR: PATENTS

IT'S THE $2.5 BILLION DRUG tug-of-war. That is what's at stake in a Senate battle over curtailing the patent protection of some big-selling drugs, such as Glaxo Wellcome's ulcer remedy Zantac and Merck's cholesterol-lowering Mevacor. Largest potential beneficiary: Britain's Glaxo. A Zantac patent, originally due to lapse after 1995, now has until July, 1997. That freezes out the generic drugmakers' knockoff version, which would cost about half Zantac's $83 wholesale price for 60 150-milligram tablets.

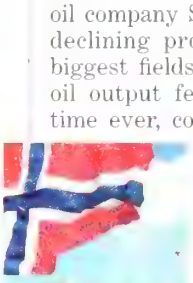
Senate defenders of Glaxo argue that taking away the patent windfall would undermine the General Agreements on Tariffs & Trade. When Congress passed GATT in late 1994, it changed the patent term, effectively adding an average of about 12 lucrative months to more than 100 drugs' patents. Leading the pro-Glaxo forces are two North Carolina Republicans, Jesse Helms and Lauch Faircloth (Glaxo's U.S. headquarters are near Raleigh), with the Senate GOP leadership going along.

Advocates for the generics point out that GATT allows selling knockoffs after the original term expires as long as a rival had invested heavily by mid-1995 to make the product. Lone exception: the pharmaceutical industry, due to a conflicting provision in U.S. drug law. Senators David Pryor (D-Ark.) and John Chafee (R-R.I.) say they have got the votes to ax this exception. Yet the Senate leadership won't let the question reach the floor. Meanwhile, House Republican leaders are taking a wait-and-see attitude. *John Carey*

BIG OIL

WILL NORWAY SOON BE RUNNING ON EMPTY?

NORTH SEA OIL UNDERwrites a good chunk of Norway's welfare state, one of the world's most lavish. Trouble is, the state-owned oil company Statoil is facing declining production at its biggest fields. Last year, its oil output fell for the first time ever, contributing to a 7% overall drop in earnings from 1994. Production from its three North Sea elephants, industry jargon for massive oil fields, is expected to decline by 1998 to one-half the 1994 level.



WELFARE FUEL: *North Sea rig*

A crimp in Statoil's ability to pump and sell oil bodes ill for the deluxe benefits Norway showers on its citizens. The energy industry accounts for 13% of government revenues, which go to support [illegible] pensions, healthcare programs, and education for 4.3 million Norwegians. Statoil makes up 60% of Norway's total production of 3.1 million barrels per day.

To avert a crisis, Statoil is scouring the earth for new fields. It has a joint venture with British Petroleum to explore in West Africa, Southeast Asia, and the former Soviet Union. The goal: to expand non-Norwegian production from 2% in total output now to one-third by 2010. But can the effort keep the Norwegian public content in the meantime? *Heidi Dawley*

THE LIST POLITICAL ANGELS

A federal candidate must accept caps on donations—$1,000 from individuals, $5,000 from PACs. But parties can bag limitless boodle if it goes to such stuff as voter registration (called "soft money") and not directly to candidates. Dirk Ziff, whose family has sold off its magazines, heads the Democrats' donor list; a tobacco giant tops the Republicans'. The GOP is winning the money race: In 1995, its national committees got $34 million in soft money vs. $25 million for the Dems.

TOP DONORS TO PARTY COMMITTEES*

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AT&T	313,684	RJR NABISCO	696,450
SEAGRAM'S**	285,000	AT&T**	370,000
MCI	279,750	AMERICAN FINANCIAL**	330,000
MIRAMAX FILMS	276,000	ARCO**	322,175

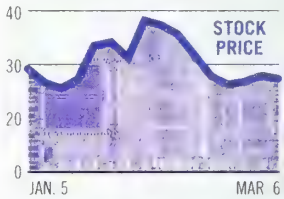
*For '95, to national and congressional campaign committees, plus other party groups
**From more than one contributor affiliated with group, including employees
DATA: CENTER FOR RESPONSIVE POLITICS

PROFITS AND GLOSS

WALL STREET'S LAPSE IN LSI LOGIC

WALL STREET'S TEA-LEA readers are drinking a bitte brew lately when it comes t chipmaker LSI Logic. Mos expected the company, whic is big in networks and ser ers, to post strong earning for 1996's first quarter: Th consensus, says Zack's Inves ment Research, was 49¢ pe share. But the company c Feb. 29 announced it expec

LSI LOGIC'S SLIDE

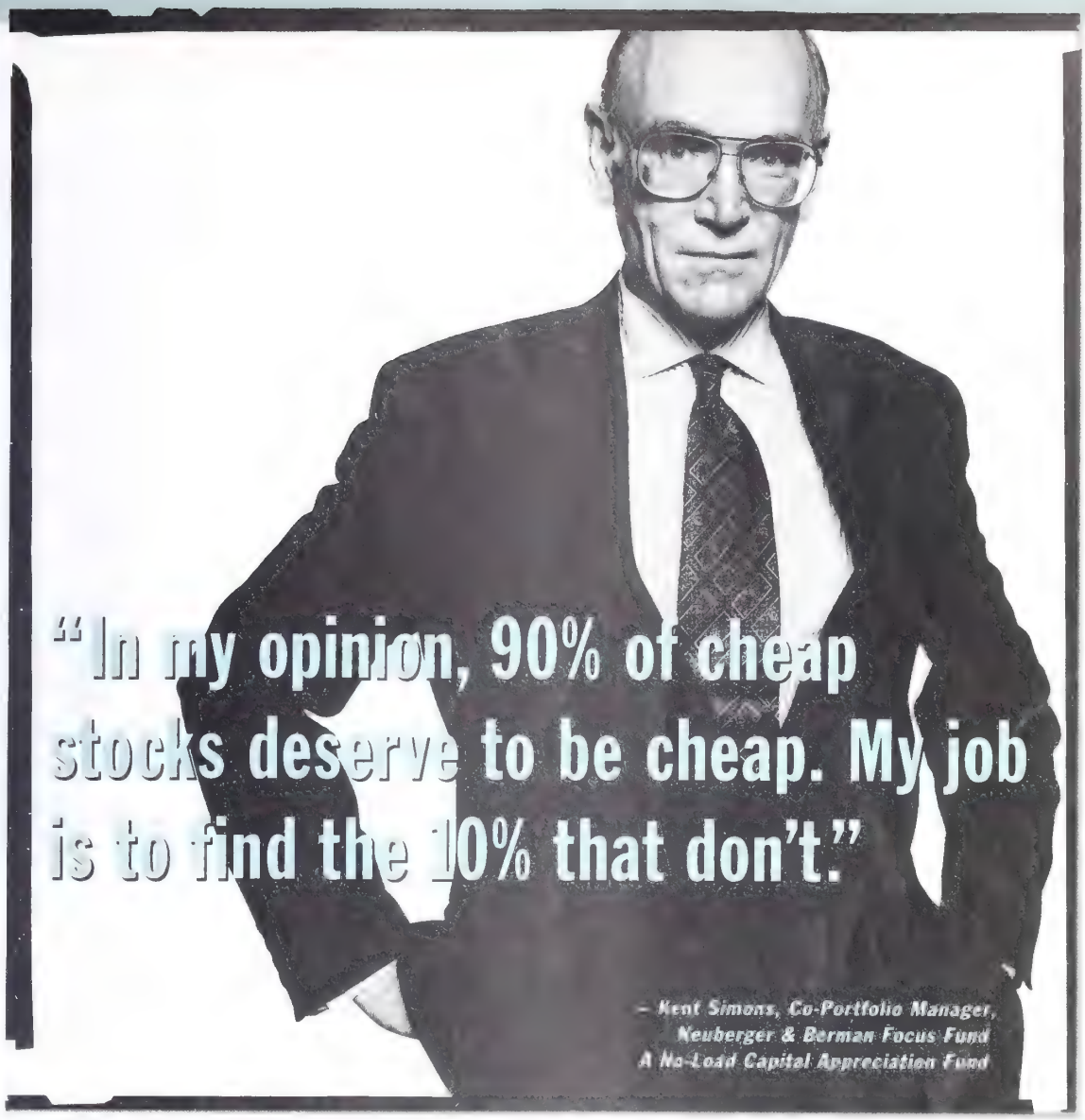


DATA: BLOOMBERG FINANCIAL MARKETS

a blah profit performance (32 to 35¢ EPS), about the sam as the comparable 1995 per od. The stock promptly sli four bucks, to 27⅞, and hasn recovered since.

Outwardly, analysts shru off the surprise, but some their customers are angr Says one institutional inve tor in LSI: "I heard nothin but good things until the flo opened." The company say it was hit by a sudden plung in orders from personal con puter manufacturers.

How did the Wall Stree analysts get blindsided "They're not that heavily int PCs—it's a little more tha 10% of LSI's revenue," ex plains Drew Peck of Cowe & Co., who forecast a 47¢ EP and upgraded LSI from "buy" to "strong buy" in Jan uary. "But when 10% goes a most to zero, that's mater al." LSI contends that growt will pick up in the secon quarter. Having predicte 43¢, Bear Stearns's Andre Neff is now more cautiou He's expecting flat earning for the rest of the year.



1 year	5 year	10 year
36.19%	19.26%	14.28%

Investment returns and principal fluctuate. Past performance is no guarantee of future results. Redemption proceeds may be higher or lower than original cost. Performance before the Fund's August 1993 reorganization is for its predecessor, which, on November 1, 1991, changed its investment policy that required substantial investments in energy stocks.

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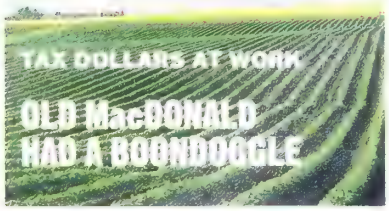
Up Front



SOYBEANS: *Often, it pays best not to plant*

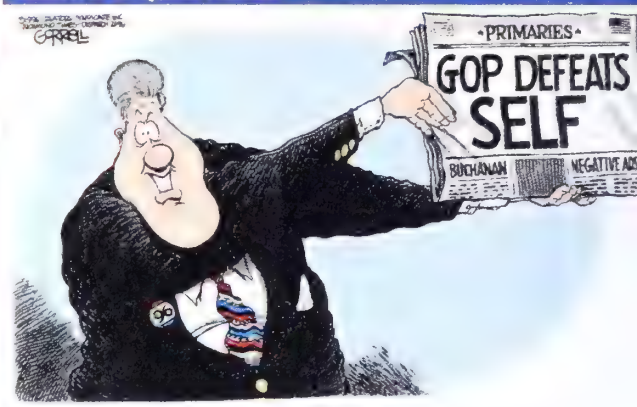
WASHINGTON'S BIGGEST conservation program, which pays farmers to take soil out of cultivation for a decade to combat erosion and help the environment, is a waste of money. So says a new study of the 11-year-old program that is now up for renewal in Congress.

The five-year study by Philip Gersmehl, a University of Minnesota geographer, finds that for every eroding acre a farmer idles, another farmer—or sometimes the same one—simply plows up nearly as much additional erosion-prone land. In the Great Plains, for instance, farmers set aside 17 million acres, yet the total cultivated land dropped by only 2 million acres.

What's more, Gersmehl's study contends that, at a yearly average of $50 per acre, the program typically pays farmers up to twice what they would have gotten farming or renting the land. Worse, says Gersmehl, it rewards farmers who manage their land poorly.

The $1.8 billion-per-year program (about one-third of all farm subsidies) encompasses 36 million acres, the size of Iowa. Backers concede there are problems but argue Gersmehl underestimates the benefits to wildlife, water quality, and soil. Besides, add Hill staffers, the program is also aimed at bolstering farm income. *John Carey*

DRAWN & QUARTERED



FAT-CAT FOLLIES

RED INK CAN'T SINK THOSE SKYBOXES

COMPANIES INSIST A LUXURY skybox is really no luxury, even if they're losing money. Take the $180 million open-air football stadium planned by Nashville for the Houston Oilers, who intend to move there in 1998.

Among the 100 or so tenants is Fruit of the Loom, which, like other apparel makers, is suffering lately. Although it lost $232 million in 1995 and laid off 400 in near by Kentucky (part of 5,00 nationally), Fruit is payin $125,000 yearly for a box Doug Kelly, head of the jack ets and sweatshirt division says entertaining customer will attract new revenue that will exceed the suite expense.

PERK? *No just busi*

Thomas Nelson, the large religious book and music publisher, is shelling out $95,000 for a Nashville box. The past two quarters' earnings are down 39% and 66%, partly due to dearth of hits. Nelson say its troubles are temporary.

In Jacksonville, Fla., mor ey-losing Ideon Group pai an undisclosed sum for a bo this past season at the ne Jaguars stadium. Ideo which registers people's cre it cards in case of loss c theft, has been hit by severa ill-fated ventures. spokesman says the compa ny got the skybox in 199 "when we didn't have fina cial problems." *Bill Care*

PRODUCT PEEK

RELIVE YOUR CHILDHOOD—FOR $3,000

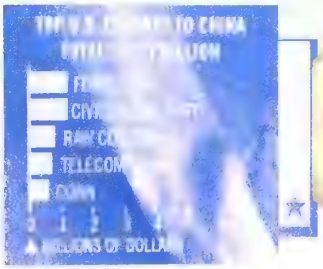
THE BLACK PHANTOM, THE coolest bike a lad could ride in the Eisenhower era, is back. Schwinn is reissuing a limited edition (5,000) of the classic one-speed two-wheeler, appealing to aging Baby Boomers' nostalgia.

And sapping their bank accounts: The resurrected bike costs a pricey $3,000. It wasn't cheap when it debuted in 1949, at $99, or about $630 today. That compares with around $150 for the standard kid's bike in 1996. The Phantom, of course, was never standard. Its steel frame has an arching steel crossbar, with a horn inside the crossbar compartment. Also, built-in headlights and taillights, balloon tires, and a front-wheel shock absorber.

BLACK PHANTOM: *1950s cool*

Schwinn reports the bikes, which went on sale at Christmas, are moving fast. At Holland's Bicycles in Coronado, Calif., owner Tyler Rowden, 48, says he quickly sold the three he received—one to himself. Another middle-age buyer says he will encase his in Plexiglas. *Scott LaFee*

THE BIG PICTURE



TAKING APART THE DEFICIT

America's widening trade deficit with China (it grew 14.6%, to $33.9 billion, in 1995) is adding to tensions between the two. Here are the top U.S. imports and exports in its trade with China last year.

DATA: U.S. CENSUS BUREAU

FOOTNOTES Total number of ATMs in the U.S. in 1992: 87,000; 1996: 123,000; 2000 (estimated): 188,400

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Readers Report

KNIGHT-RIDDER IN SHINIER ARMOR?

It is both puzzling and frustrating to see myself and our company portrayed under a headline proclaiming: "Running hard, but staying in place" (Media, Feb. 26). Since I became CEO 11 months ago, we have sold the *Journal of Commerce*, put up for sale Knight-Ridder Financial, purchased Lesher Communications Inc., planned substantial margin increases at some of our largest papers, and developed a strategy to put all our newspapers online by early 1997. Your article notes many of these developments. But this is standing still? From a 1995 low of 50⅜ in February, 1995, our stock closed on Mar. 1 at 69⅝—an all-time high.

Although the challenge you identify—finding new ways to grow revenue—is on target, the way the article frames it is anything but:

■ How credible is a disparaging quote from an unnamed former executive? Might it not be someone who left unhappy?

■ The article talks condescendingly of "low" margins, never mentioning that the current strike at our newspaper in Detroit is a primary cause. The article next implies that we are unimaginative to try to "squeeze more" (negative term) from a major newspaper that dramatically underperforms the margins just criticized.

■ In the boldfaced "Knight-Ridder's trials and errors," you list one venture that shut down a decade ago (Viewtron), one that we have been hailed for addressing quickly and vigorously (KRF), and one so tiny and experimental (Information Design Lab) that it cannot be ranked with the others.

Most discouraging, the article cites little that is positive. It belittles our newspapers' new revenue initiatives as meeting with "little or modest success." Is more than $100 million modest? It dismisses our industry-leading online initiatives as back-to-the-future fluff. Knight-Ridder is a marvelous enterprise, and there are many rewards to being its CEO. Unfortunately, this BUSINESS WEEK profile is not one of them.

P. Anthony Ridder
Chairman and CEO
Knight-Ridder Inc.
Miami

CORRECTIONS & CLARIFICATIONS

In "Drug prices: So much for restraint" (News: Analysis & Commentary, Mar. 4), the 1.7% rise in drug prices last year was measured at the producer and wholesaler level, not the consumer level.

A HATCHET JOB ON PACIFIC LUMBER

There are so many distortions in your review "A 1980s chainsaw massacre" (Books, Feb. 26) that one hardly knows where to start. For the record: The town of Scotia, Calif., has never been healthier. Ten years after Pacific Lumber Co. was acquired, employment is up by several hundred; company-funded college scholarships remain available to all employees' children graduating from high school; hundreds of employees' families still live in very affordable, attractive, company-owned rental houses; health benefits are enhanced; worker safety is improved; and more than $100 million has been reinvested in facilities, equipment, and additional timberland.

The rate of timber harvest was less than doubled—not tripled. The increase was mostly in younger trees, and was initiated only after independent studies confirmed the increase would not adversely impact either the environment or economy. The last redwoods are not being cut.

Your headline trumpets a "chainsaw massacre" that never took place and never will on our property. Pacific Lumber is a 127-year-old company committed to the perpetual renewal of our privately-owned timberlands. Our behavior as an environmentally conscientious company is verified by the national rec-

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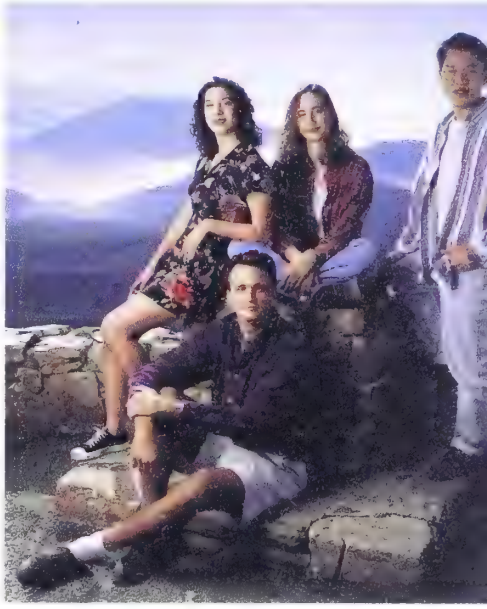
REMEMBER WHEN YOU COULD JUST GROW MOLD ON A PIECE OF BREAD AND CALL IT A SCHOOL PROJECT?

This year, La Sierra SIFE students completed 122 different free enterprise community outreach projects that reached over 30,000 people. And they generated $121,000 along the way (more than any piece of moldy bread on record). With the help of SIFE (Students In Free Enterprise) and their school faculty, students like those from La Sierra University in Riverside, CA, are showing the world just how much a student organization can do.

Through a variety of innovative outreach projects, La Sierra SIFE students focused their efforts on economically disadvantaged schools and technologically underprivileged citizens – teaching, motivating and supporting those who need help in today's competitive marketplace.

By supporting SIFE, not only are companies helping students improve their communities, they are also providing their companies with a talented and more experienced workforce.

Their "Homeless shelter employment project" (a series of success strategy seminars presented by SIFE members) helped homeless people find jobs and provided students with the kind of experience you can't find in text books.



MAKING THE WORLD A BETTER PLACE TO BE: Clockwise from upper l
La Sierra's Heidi Serena, Patria Wise, Andy Wongworawat, and Steve

It's projects like this that made the La Sierra team winners of the SIFE International Championship for two years in a row – over some very stiff competition from 330 other SIFE teams from around the country.

For example, first-runner-up Union University, of Jackson, TN, conceived and completed 19 education and awareness projects which informed over 150,000 people about the issues associated with the federal budget deficit and the consequences of the national debt.

And second-runner-up, North Central College, of Naperville, IL, created–among other things–the "Where's The Dough" board game, designed to help high school students learn about entrepreneurship and free enterprise in a fun and interesting way. The game was so fun and interesting in fact, that it won the SIFE Best In-Depth Education Award and the National Federation of Independent Businesses Award for creativity, enterprise and achievement in entrepreneurship and free enterprise education.

Through the championship competition, as well as each individual project, SIFE works in partnership with higher education and business to give college students the opportunity to teach others how market economies and businesses operate. To find out how your company can help, call 1.800.677.SIFE. Or write us at our national headquarters, 1959 East Kerr, Springfield, Missouri 65803.

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John A. Campbell
President and CEO
Pacific Lumber Co.
Scotia, Calif.

FREE TRADE NEVER MADE AMERICA GREAT

The term "losing faith" was very apt n regard to "Free trade: Republicans nay be losing faith" (Washington Outook, Feb. 19). This dogma has been embraced as holy writ even though it's actually only a theory with a very poor track record. It is no mere coincidence that U.S. economic growth has slowed and employee incomes have stagnated luring the last two decades of "free rade" policies. The U.S. now imports nalf the manufactured goods it consumes as "global" factories have replaced millions of middle-class American obs. We must take back the most vital narket in the world: our own. On every ront, "free trade" has failed to provide net benefits to America. China has a $30 billion trade surplus with us, while lemanding technology transfers, co-production, and joint ventures as the price or doing business there.

The U.S. has enormous leverage to vin advantageous trade agreements hrough traditional results-oriented comnercial diplomacy. But we throw this everage away when we adopt "free rade" as an ideological objective.

Representative Duncan Hunter
(R-Calif.)
Washington

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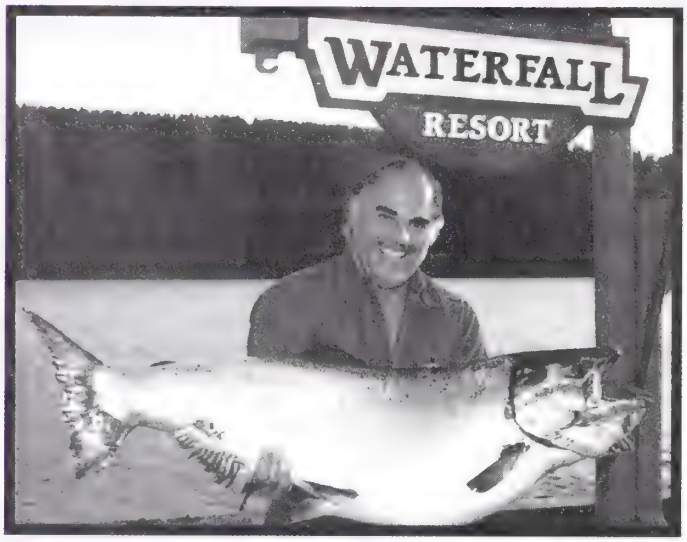

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BY STEPHEN H. WILDSTROM

THE PAINLESS DATABASE

With Salsa, you don't have to have a PhD in programming to analyze business info

Perhaps the most dramatic impact of the computer revolution on business has been the data explosion. Whether it's an hour-by-hour cash position or sales of widgets in Wisconsin, information that once was buried deep in account ledgers or mainframe databases now is available on the desktops of decision makers.

The revolution is far from complete, however. Even something as simple as a monthly look at widget sales requires sifting through a mountain of information to find what you're looking for. Customizing database software to your needs has long required the skills of a computer whiz. Small-business managers, with no computer staffs to turn to, are at a particular disadvantage.

PROBLEM SOLVER. Salsa for the Desktop, a new Windows program available from Wall Data (800 987-2572), could be the breakthrough that finally creates a database manager for the rest of us. It walks you through the hardest database chore, which is organizing the information in the first place. Then it can solve some sticky problems. How do you track which customers are buying which products so that you can get the most bang for your marketing efforts? How are you supposed to arrange payroll, benefits, and personal information about employees to keep your workers motivated and comply with various regulations?

Conventional database software can answer those questions. But most people are clueless about how to design a database that will handle these chores efficiently. And that's only the beginning. Unless the information is linked properly, getting the reports you need is always going to be a nightmare. Programs such as Microsoft Access and Borland Paradox require that you learn the arcane formal concepts of databases. Ever heard of such things as inner joins, outer joins, and normalized tables? But Salsa allows you to create your database in a process that you can understand, then gives you the tools for extracting the information in ways you can use.

Let's say you want to keep close tabs on customers' buying habits and reward or prod the employees who take care of those customers. You can start with a template called "Company" and modify it, using easy drag-and-drop tools, to make it a customer list. Drag in a template called "Employee" and you have the beginnings of your human resources and payroll database. And drawing lines between "Employee" and "Company" lets you associate workers with the companies they deal with. Entering and extracting the information you want then becomes fairly routine.

SIMPLE VIEW. Salsa, available at an introductory price of $149, provides a large number of templates for basic tasks, such as keeping track of phone numbers or generating invoices and expense reports. For $49 each, you can buy "starter kits" that provide templates for specialized functions such as human resource management or inventory control.

Salsa is so committed to simplicity that it has no printed manual. This may be a mistake. The built-in tutorials and help system, while excellent, are no substitute for a hard-copy reference. I found myself printing out lots of help screens to get through the trickier parts.

For a real-life testimonial, listen to Scott Moberly, the general manager of Dick Campbell Co., a small Seattle manufacturer of traffic-control equipment. He couldn't get by with information extracted from his accounting programs as he added new products and distributors as part of an expansion plan. He found a test version of Salsa to be ideal for his added information needs. "I knew nothing about databases," Moberly says. "But I know about my business, and this is helping me manage my business." You can expect to run into more Scott Moberlys soon.

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A FAST, CHEAP LAPTOP

Laptop bargain hunters can now think Pentium. The Toshiba Satellite 100CS is the first laptop powered by the processor to crack the $2,000 barrier—barely—with a $1,999 street price. That buys a solid but basic machine: A 75-

megahertz Pentium, 500-megabyte hard drive, 8 MB of RAM, 10.4-in. passive-matrix color display, and nickel metal-hydride battery. There's no sound or internal CD-ROM drive. The 100CS weighs a relatively hefty 6.9 pounds. But that includes a built-in battery charger; you need add only a cord instead of a transformer brick.

WORLD WIDE WEB

VIRTUAL STOCK TRADES

Spring Street Brewing Co., a tiny New York microbrewery, has taken online investing to a new height. On Mar. 1, it began operating a bulletin board (http://www.interport.net/witbeer) that allows individuals to trade the company's stock that has been issued to employees or private investors. The results of the first few days of operation suggest that do-it-yourself trading is not yet a threat to NASDAQ. With buyers bidding 2¢ to $1.85 a share and sellers asking between $1.95 and $10, no deals had been done.

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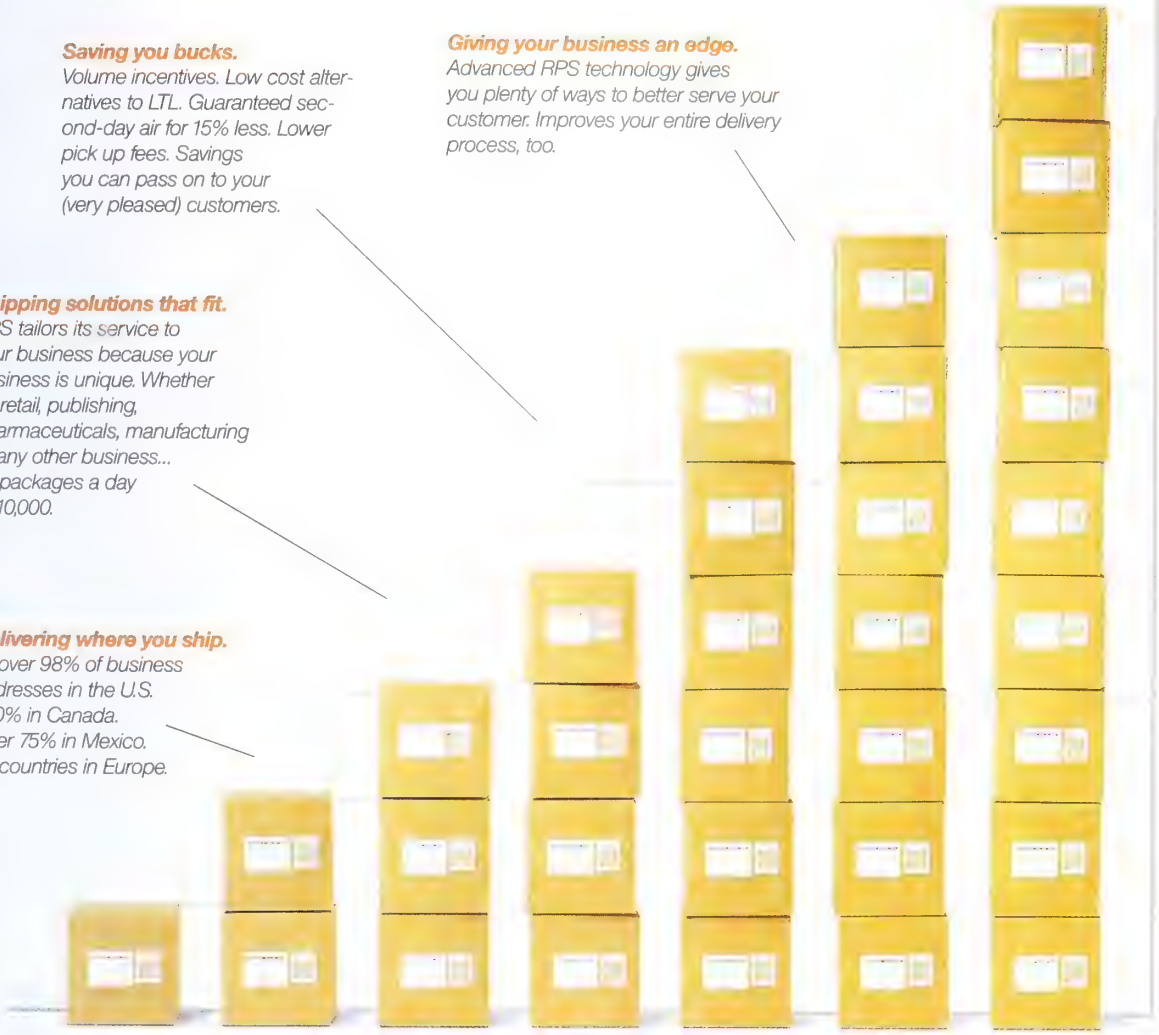

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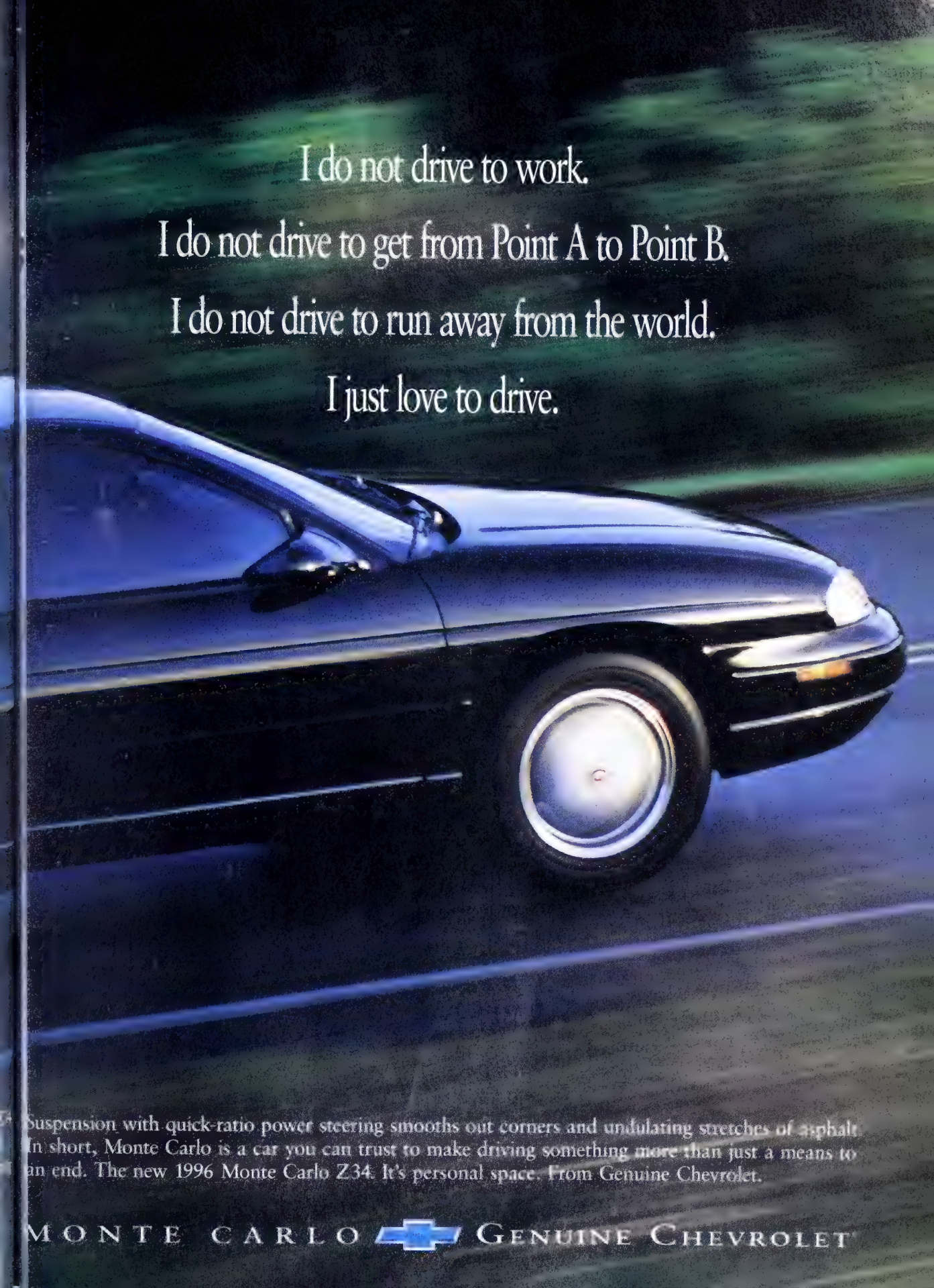
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THE LOYALTY EFFECT
The Hidden Force Behind Growth, Profits, and Lasting Value
By Frederick F. Reichheld
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LOYALTY? NOW THERE'S A NOTION

A management book about loyalty? To many, that concept—at least in today's ever-turbulent workplace—is as dated as the pet rock. A decade's worth of massive downsizings have demonstrated that Corporate America is no longer loyal to its employees. Managers and executives, meantime, have slowly discovered that it would be terribly naive to be loyal to employers who willingly discard people even when profits are up.

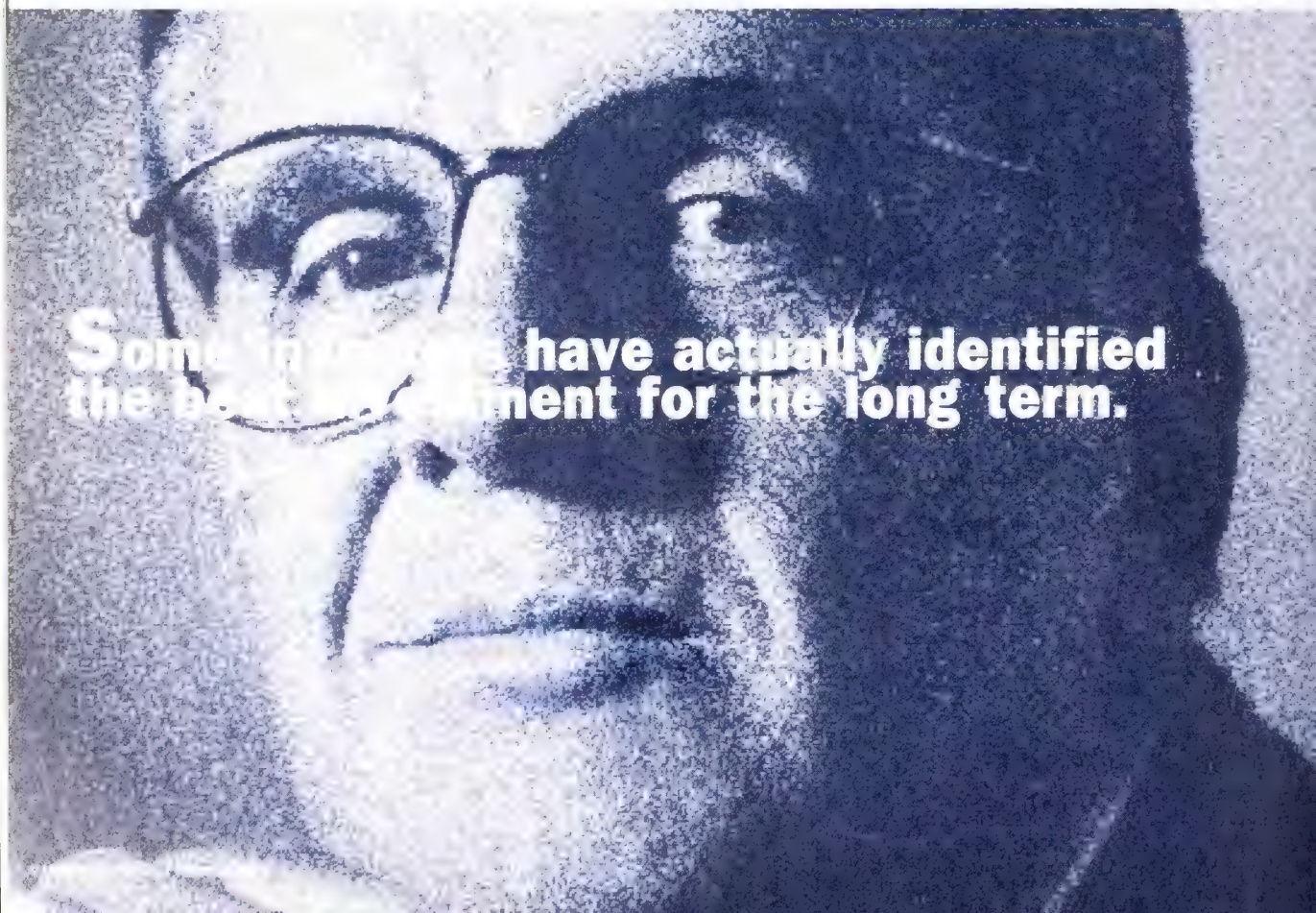
It is not only in the workplace that loyalty seems dead. It also appears to be a lifeless notion among bargain-hunting customers and fast-money investors who seem more fickle than ever. The upshot: U.S. companies now lose half their employees every four years, half their customers in five years, and half their investors in less than 12 months.

One person who hasn't given up on loyalty is Frederick F. Reichheld, a consultant who has made a business of convincing at least some companies that they would be wise to begin employing what he calls loyalty-based management. Indeed, the author of *The Loyalty Effect* heads up the worldwide loyalty practice of Bain & Co., a consulting firm known for its hard-headed analytical approach.

With economic anxiety in the air, the issue of loyalty or the lack of it is certainly topical. Reichheld believes many of today's managers have caved in to pressures from "short-term investors" to maximize returns by exploiting customers—by reducing quality, say, raising prices too rapidly—and m treating employees. "It is managemen over-attentiveness to the demands these short-term investors that stalling growth at many companies," asserts. "This hurts not only custome and employees, but is equally det mental to long-term investors."

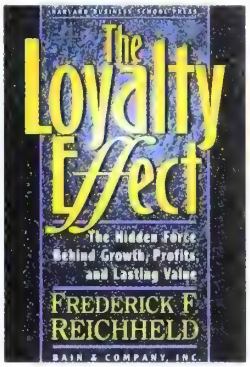
But does loyalty really pay o Reichheld is a believer. He points c that agents for State Farm Mutual A tomobile Insurance Co. stay with t company more than twice as long agents with competitors, and th achieve productivity levels 40% high than the industry norm. Custome retention rates at State Farm exce 95%. Chick-fil-A, a fast-food chain w more than 600 outlets, boasts turnov of store operators of 4% to 6% a year an industry in which the average chu runs close to 50%. Even though sto operators earn 50% more than those competing chains, Chick-fil-A has be able to finance a major expansion wit out going deeply into hock.

To the author's credit, *The Loya Effect* acknowledges that a compa that simply holds onto employees is going to produce superior retur



REICHHELD SAYS LOYAL EMPLOYEES TRANSLATE INTO MORE LOYAL CUSTOMERS AND INVESTORS

Deadwood still has to get chopped out of organizations. But to Reichheld, the fundamental goal of a business is not profit but "value creation." Companies create value by understanding that they can only retain loyal customers with a base of loyal employees. By decreasing defection rates of customers, employees, and investors, companies can achieve "prodigious growth in profits and cash generation," he says.



Under this model, profit is a consequence of value creation, a result rather than a purpose. "Profits alone are an unreliable measure because it is possible to raise reported short-term earnings by liquidating human capital," he writes. "Pay cuts and price increases can boost earnings, but they have a negative effect on employee and customer loyalty and so shorten the duration and worth of those assets."

How convincingly does Reichheld make these arguments? While they will certainly have resonance to an ever-growing number of disenchanted managers, there are some flaws in his reasoning. For one thing, most of the author's examples are privately owned companies that do not face constant pressure from outside investors and stock-market analysts. Publicly held companies, Reichheld says, need to specifically market themselves to long-term investors and to find an investor angel, a Warren Buffett type who is willing to buy a large stake in the company.

Another problem is what may well be the single biggest hurdle to loyalty-based management: conventional accounting systems that fail to measure the value of loyal customers, employees, and shareholders. Reichheld suggests developing alternative balance sheets to measure such things as the costs of acquiring customers and training new employees. But a reader is left wondering whether the creation of such systems would deliver real value or simply result in some grand social experiment.

Strip out the loyalty focus of this book, moreover, and you find very few fresh ideas and far too many business clichés. Reichheld, for example, reminds us that business must serve its customers, that people are a company's most valuable asset, that you can't manage what you can't measure, and that you should treat others the way you'd like them to treat you.

Sadly, though, many corporate leaders seem to have forgotten that short-term profit is not a primary business objective nor a goal that will cause the troops to rally. If Reichheld's book simply leads a few chief executives to be more mindful of the ill effects of large-scale layoffs and customer turnover, it will have succeeded in resurrecting a concept that seems rather foreign in the 1990s.

BY JOHN A. BYRNE

Senior writer Byrne covers management issues for BUSINESS WEEK.

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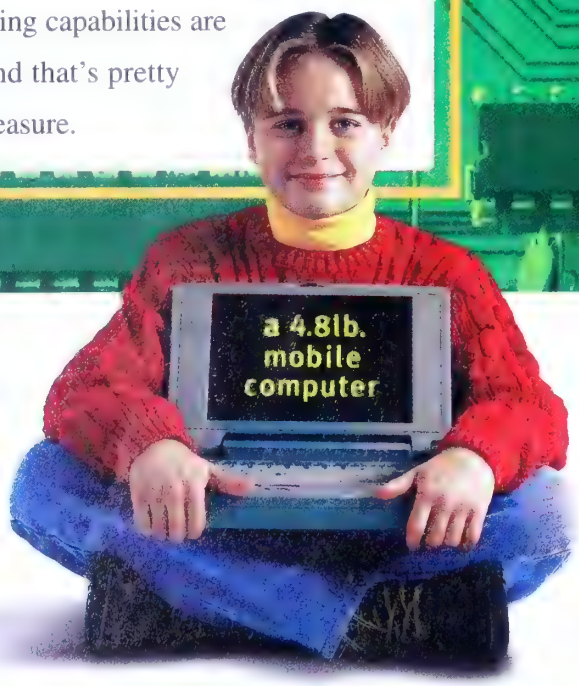

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BY RUDI DORNBUSCH

IN SPAIN, AN OPPORTUNITY LOST

STALEMATE: Even though conservatives gained a thin victory at the polls, their leader isn't likely to wield enough clout to reform the welfare state

Poor Spain. It needed a Margaret Thatcher in this election and got a Spanish version of John Major. True, the Socialists were defeated by the conservative Popular Party, but the new government has three problems: It has no vision, it has no mandate, and it has no power. The victory was razor-thin, and the PP will be at the mercy of the ousted Socialists or like-minded regional parties. In what is likely to be a brief spell in office, Prime Minister José María Aznar will not have the clout to truly reform Spain's economy.

The country is now at a political stalemate. Whatever coalition Aznar might build, it can only come at the expense of real market reform. Both potential allies from the Basque region and from Catalonia are firmly wedded to the welfare state status quo.

When the Socialists ousted the conservative leftovers of the Franco regime, they were immensely successful in creating a broad-based democracy. Europe was thankful to finally say goodbye to fascism and welcomed the vigorous, smiling young politician Felipe González. But the price for peaceful transition was no rocking of the economic boat. Spain made the transition from fascist corporate welfarism to liberal state welfarism smoothly.

Joining Europe brought money and market access, which more than paid for the opening of trade barriers. But deeper reform in the labor area, in the welfare system, and in deregulating the formidable corporatist structure never came to pass. In fact, the trend in recent years has run in the other direction. For example, stores used to be closed on weekends under Franco. They were opened for shopping under González' Socialist government. Now they are closing again.

For more than a decade, Spain has seen little growth. Every step of the way has been obstructed by regulations, small shopkeepers, professional associations, and unions. Any attempt to increase competition was perceived as a threat to jobs and vetoed.

LITTLE HEADWAY. Spain is in desperate need of economic reform. The budget deficit is 5% of gross domestic product, growth is slow, inflation is high, and unemployment is at an amazing 23%. In a survey on labor-market conditions, a majority of respondents said high unemployment was likely to be a permanent feature of the Spanish economy—and they may well be right. Between the unwillingness to make labor markets more flexib and the growing competition from low-wa Eastern European countries such as Pola and the Czech Republic, Spain is losing ou

The election could have made a differenc but it didn't. The Socialists fought tooth a nail to hang on to power and painted t right as a return of Generalissimo Francis Franco. Economic themes did not run high, least not in the specifics. It is clear that aft the budget battles and riots in France la fall, a weak, conservative Spanish Prime Mi ister is unlikely to take on the labor Esta lishment or small business. And he is just unlikely to take on the budget deficit, whi gets an "F" on the Maastricht exams.

CRISIS COURSE. Most of Europe is careful trying to move in the direction of more r structuring, more pressure on labor to give impossible demands, more room for busine to do what must be done to be competitiv Everyone in Europe denounces loudly t American way and points to Pat Buchana protectionist message as the inevitable o come of too much free market, too mu deregulation. But as they publicly compla they quietly act to copy the American ec nomic model. The case of France, where w fare reform is going forward, makes this pla

Can Spain afford to hold off economic r form forever? The election provided a k juncture for the country to vote on moder ization and a genuine prospect for making in Europe. The stalemate outcome now mea major political instability, Italian-style, as vi tually any economic proposition becomes vote of confidence in Parliament. New ele tions with an uncertain outcome will con perhaps as early as two months from no or as late as next year, when the new budg is announced.

The issue is no longer that the Socialis made a good transition from Franco-style di tatorship. That was decades ago. The conse vatives, for their part, failed to recognize th a partnership with the regional parties economic issues, at the sacrifice of some r gional autonomy, would have built a beac head for reforms here and now. As a resu Spain has lost the illusion that something c be done easily on the economic front. Now w can watch the spectacle of how, after the i evitable financial crisis down the road, chan comes the hard way. The only question Who will be the Spanish Thatcher?

Rudi Dornbusch is professor of economics and management at Massachusetts Institute of Technology

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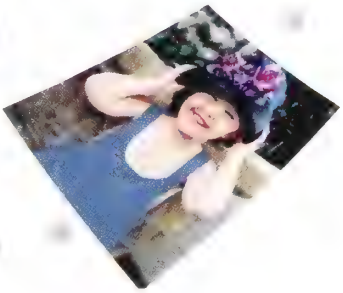

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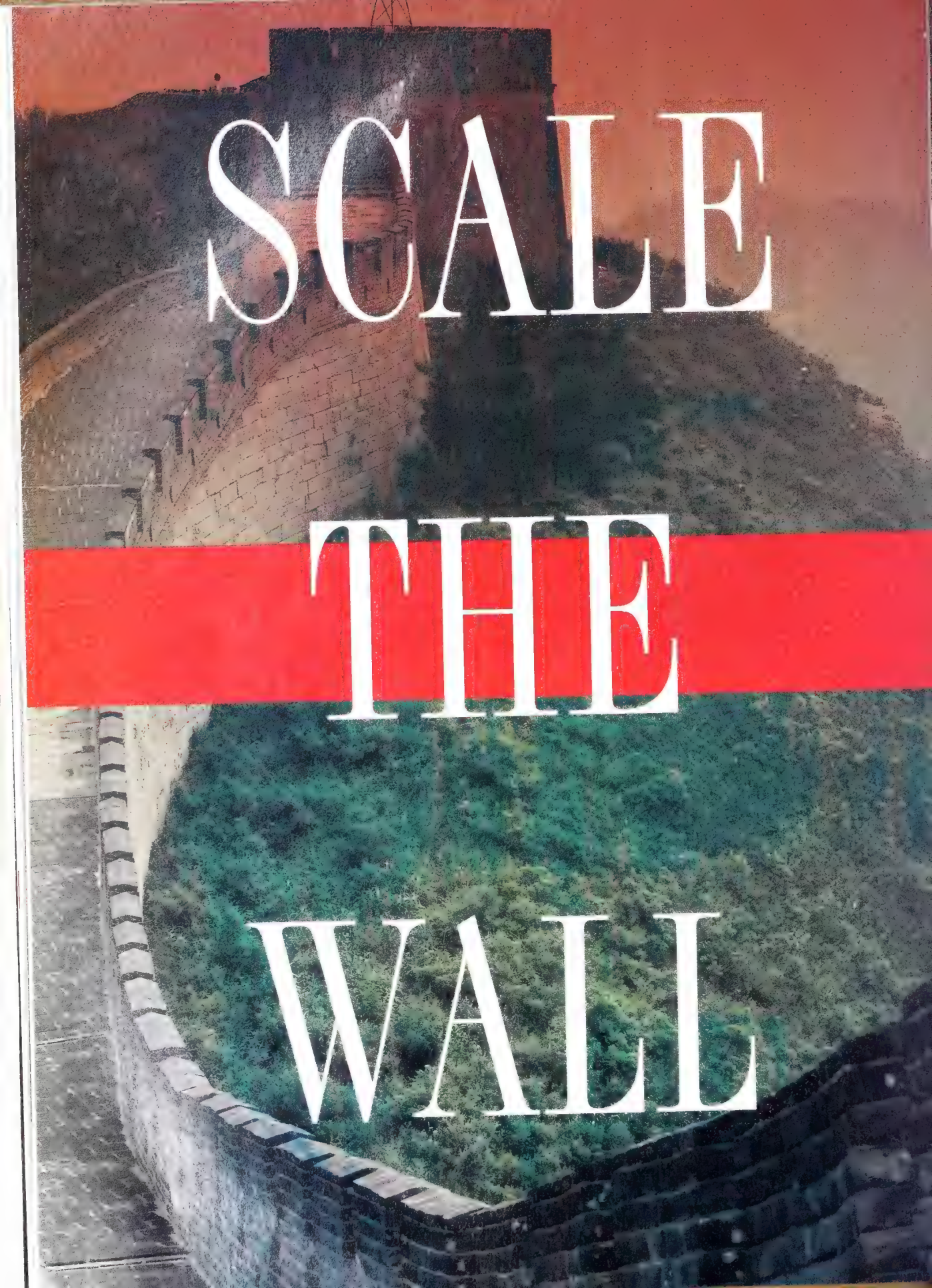
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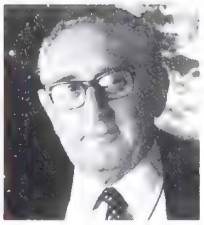

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BY GENE KORETZ

WALL STREET IS NOT MAIN STREET

Most folks aren't in on the boom

To put it mildly, observers of U.S. financial markets and the U.S. economy over the past year have been experiencing cognitive dissonance. On the one hand, the stock market has posted its largest increase in recent memory, leaping by some 35% last year and still counting. On the other, the economy crept higher at a lackluster 1.4% pace, consumption has lagged, and economic anxiety is widespread.

To those who equate stock market booms with economic welfare, all of this is puzzling. With all of their added wealth, why aren't consumers spending with élan? And why is there so much malaise in the hinterland?

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A new study by economists James M. Poterba of Massachusetts Institute of Technology and Andrew A. Samwick of Dartmouth College throws some light on such issues. The study's focus is the so-called wealth effect, the theory that a rise in stock prices makes people with stock investments feel richer and thus leads them to spend some of their added wealth—boosting consumption and spurring economic growth.

A key question, of course, is the nature of stock ownership. Using Federal Reserve data, the researchers calculate that the household sector—both directly and indirectly, via mutual funds and defined-contribution pension and savings plans—currently owns nearly two-thirds of total U.S. equities. Moreover, the share of households with stock holdings grew from 19% in 1962 to 33% in 1992—and has undoubtedly risen since then.

A problem, however, is that a large number of such holdings are either negligible or relatively inaccessible for spending. In 1992, for example, only 17% of households had more than $2,000 in stocks or mutual funds outside of tax-favored savings and pension plans with penalties for early withdrawals.

Moreover, stock ownership is highly concentrated. Based on the Fed's 1992 survey of consumer finances, Poterba and Samwick estimate 5% of households own 77% of all shares held by individuals and families. And 80% of households own 2%. Subtracting holdings in tax-favored pension and savings plans, the equity share of the bottom 80% of households drops to a scant 0.5%.

Thus, any impact on consumption from rising stock prices is likely to be found among the wealthiest families—say, the top 10% who account for 90% of household equity holdings. Yet in analyzing past stock market and consumption patterns, the researchers find no significant relationship between rising (or falling) stock prices and subsequent sales of luxury cars and other items purchased by affluent families.

The findings suggest that anyone looking for a direct wealth effect from last year's stock boom is likely to be disappointed. Still, the authors note that market rises are usually followed by consumption increases—presumably because stocks, by reflecting earnings expectations, remain a good leading indicator of overall economic activity. So the boom still points to a likely consumption rebound in the months ahead.

Perhaps the most intriguing aspect of the study is what it implies about wealth dispersion. Because substantial stock ownership is confined to relatively few households whereas most families' net worth is centered in home ownership, the latest stock market boom suggests that the wealth gap in the U.S. has inevitably widened.

WHY WAGES ARE FINALLY RISING

Slowing benefit costs have helped

What's behind the modest 0.4% rise in inflation-adjusted wages in the past two years after a decade of stagnation? According to David S. Wyss of DRI/McGraw-Hill, it isn't the payoff from rising productivity, as some experts have claimed: Data revisions indicate productivity growth hasn't really accelerated. Rather, it's the sharp slowdown in the cost of fringe benefits, which rose just 2.7% last year—less than wages.

Fringe benefits and wages, of course, make up total compensation. And be cause fringes were rising almost twice a fast as wages in the 1980s, employer had less left over to put into pay en velopes. Fringe costs took off in the '80 partly because of soaring medical cost but mainly because of rising payroll tax es for Social Security, unemployment in surance, and workers' compensation. I the '90s, though, fringe increases hav slowed as payroll tax rates stabilize and health-care inflation subsided.

As Wyss sees it, real wages hav started to edge higher because some c the benefit from slowing fringe cos hikes is finally being passed on to em ployees. And while businesses also hav used some of the fringe cost dividend t boost profits, history suggests that labo will eventually reap the full benefit.

FACTORIES TAKE A BREATHER

Expansion plans slow worldwide

The global surge in capital spendin for plant expansion is losing steam Cimtek-Thomas, a market-research an database company in Johnson City, Tenn says growth in the number of such proj ects slowed last year in most nations.

The slowdown was most obvious in th U.S. Canada, and Britain, where th number of announced projects actuall fell below year-earlier levels, but it wa also evident in Western and Eastern Eu rope and even in emerging Asia. Indeed two of the sharpest slowdowns occurred in China and Asia's newly industrialized countries, where plans to build plants and expand capacity rose modestly after doubling in '94.

Expansion plans did pick up in Japan after a '94 drop. But the most notable exceptions to the slowdown were Mexico and the rest of Latin America, where the number of announced plans to build new plants and expand capacity more than doubled.

PLANT EXPANSION AROUND THE GLOBE

PERCENT CHANGE IN PROJECTS ANNOUNCED*

	1994	1995
U.S.	+74	–9
CANADA	+88	–11
GERMANY	+23	+4
FRANCE	+87	+53
ITALY	+55	+14
BRITAIN	+69	-8
JAPAN	–19	+20
CHINA	+119	+10
NICS**	+103	–4
OTHER ASIA	+134	+35
MEXICO	+51	+103
OTHER LATIN	+28	+148
E. EUROPE***	+25	–10

* NEW PLANTS AND EXPANSIONS
** HONG KONG, KOREA, TAIWAN, AND SINGAPORE
*** INCLUDES RUSSIA AND OTHER CIS STATES

DATA: CIMTEK-THOMAS, JOHNSON CITY, TENN

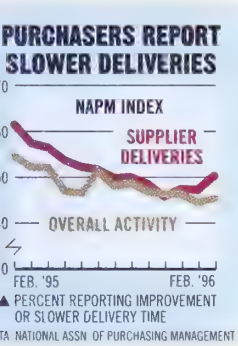
Y JAMES C. COOPER & KATHLEEN MADIGAN

FACTORIES WILL SHAKE OFF THE WINTER BLAHS

U.S. ECONOMY

It looks like 1985 redux. Eleven years ago, the overall onomy was healthy, but the industrial sector was etting blown to bits.

Today, the economy remains on track, although the nuary blizzard continues to skew the data, as was ident in the monthly readings on personal income d household spending. But manufacturing is ailing ain. The nation's purchasing managers reported that oduction, jobs, and orders failed to rebound in more eather-friendly February.



In the mid-1980s, a hyper-strong dollar brought in a flood of cheap imports while making U.S. goods non-starters in world markets. This time, the problem is not overseas. Rather, soft domestic demand and a drawn-out inventory adjustment are curbing the need to lift factory output and payrolls.

The inventory problem can traced to a tight monetary policy that pushed down ending in the second half of 1995 faster than pro-cers could adapt. The overall economy will not regain vitality until manufacturing recovers.

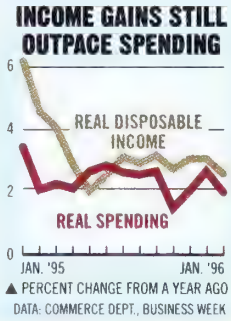
Fortunately, some recent data suggest that invento-es now are better aligned with demand. In particular, sinesses are taking longer to fill orders (chart). And ecause the rise in household income looks sufficient to aintain a moderate pace of spending, output should ck up again in the spring.

OOKING FURTHER OUT, manufacturing's fortune nges on interest rates. Producers of interest-sensitive ods have always been the Federal Reserve's whip-ng boys when it comes to managing economic growth. ith the first quarter looking so soft, policymakers, who xt meet on Mar. 26, will probably see the need to se up on short-term rates at least another notch.

Equally important, long rates must come down. The eld on the benchmark 30-year Treasury bond aver-ed 6.25% in February, a lofty altitude given the ne inflation outlook. A major reason for the bond arket's sulky attitude: the lack of a balanced budget age 37).

Without the booster shot of lower borrowing costs, mestic demand, especially for housing and cars, could st limp along through 1996. The latest news shows that, partly because of the blizzard, the economy is struggling to put growth in the plus column in the first quarter.

Personal income grew a strong 0.6% in December but then eked out a mere 0.1% gain in January as inclement weather kept workers home. Inflation-adjusted disposable income was flat in January, and real consumer spending plunged 0.8%, led by a 5.4% decrease in outlays for durable goods.



Even so, real consumer spending started the first quarter about even with its fourth-quarter average. Unless job growth collapses—an unlikely prospect—consumers will have enough income to increase their spending. On a year-over-year basis, real aftertax incomes have outpaced consumer spending since July (chart). In fact, real income is up at an annual rate of 2.8% since July, while purchases have grown 1%.

February's buying trends are already looking better than January's. The weekly surveys of retailers suggest that store sales snapped back. So, too, purchases of domestic and imported cars and light trucks increased 13.6% last month, to an annual rate of 15.9 million. That's a good sign that consumer spending is recovering from its January slump.

A CONSUMER REBOUND is good news for businesses, especially ones still wrestling with too many goods on hand. Inventories at factories, wholesalers, and retailers fell 0.5% in December, but the government reported that factory inventories alone jumped back up by 0.7% in January.

Once again, that increase probably reflected weather more than economics. Factory shipments dropped 0.9% as snow and ice disrupted trucking and rail systems. But orders rose 0.5%, a sign of better demand. Excluding the volatile transportation-equipment sector, orders increased an even stronger 1.2%.

It is important to keep in mind, however, that not all of manufacturing's problems are weather-related. Although consumers and businesses are still spending, they are not buying with the aplomb of 1994 or early 1995. That's why inventories became a problem—and the overhang has dragged down output and jobs.

The National Association of Purchasing Management

ERIC HOFFMANN/BW

reported that industry remained sluggish in February. The NAPM index—a compilation of production, orders, jobs, inventories, and prices—rose to just 45.2%, from a recessionary 44.2% in January.

STILL, THE REPORT CONTAINED some hopeful signs. Most important, inventories contracted last month, while orders showed some improvement. The NAPM also said that supplier delivery times are in a clear uptrend. That means that businesses are relying more on current production to meet new demand, rather than quickly filling orders by dipping into inventories.

The vehicle industry remains an exception to the progress made on inventories. Although vehicles and parts account for less than 5% of factory production, swings in the industry roll back on their suppliers and can greatly influence the overall trend in manufacturing.

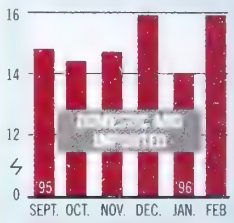
Car dealers ended January with an excessive 88-day supply of unsold cars and trucks. The rise in February sales likely pared a good chunk of the overhang (chart), but not all. So auto production should remain modest, which means little output growth for suppliers.

Manufacturing's outlook might be more discouraging if not for the lift expected from exports. Given the growth in developing economies, exports may well increase at nearly a double-digit rate in 1996. In fact, the key contrast between today's situation and that of the mid-1980s is that unless the bond market experiences a sea change soon, manufacturing's healthies markets in 1996 may well be the ones overseas.

In addition, manufacturers seem to hold a produc tivity advantage over service companies. The Labo Dept. reported that output per hour worked in th nonfarm business sector fell at an annual rate of 0.5% i the fourth quarter, but manufacturing efficiency grew a a 2.5% clip. That implies a fairly steep drop in servic productivity, although even Federal Reserve Chair man Alan Greenspan has questioned the ability of th data to capture recent trends in services.

For all of 1995, nonfarm productivity rose by 0.8%, while manufacturing's was up 3.6%. Total unit labor costs increased 3.3%, but factory costs fell 0.4%. That means manufacturing profits should hold up well, even during these lean times.

VEHICLE SALES BOUNCE BACK IN FEBRUARY



▲ MILLIONS, AT ANNUAL RATES

DATA J.P. MORGAN & CO., BLOOMBERG FIN MKT.

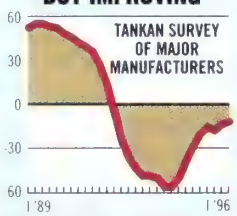
Although the factory sector has shrunk to a record-low percentage of the economy, its ups and downs still heavily influence the overall econ omy. On balance, manufacturing's weakness is finall bottoming out. And with a little help from lower in terest rates, the economy should look a lot healthie this summer than it does right now.

JAPAN

A TIMIDLY RISING SUN

Japan's economy is recovering, but the pace is more plodding than earlier indicators had suggested. That was the message from the Bank of Japan's quarterly *Tankan* survey of business sentiment, a key indicator of current and prospective economic conditions.

SENTIMENT IS NEGATIVE, BUT IMPROVING



▲ PERCENT "FAVORABLE" MINUS "UNFAVORABLE"

DATA: BANK OF JAPAN VIA BLOOMBERG

The headline number—an index of sentiment at major manufacturers—stood at –12, an improvement from –18 in the November survey. The index is the difference between "favorable" and "unfavorable" readings. A minus sign means that pessimists still outnumber optimists. The improving trend is clear (chart), but the overall results were much less upbeat than expected. After four years of stagnation, forecasters expect Japan to grow about 2% this year, far below the normal recovery pace.

The recovery is still not self-sustaining, that is, driven by private-sector demand and output, instead of just a bump from 54.5 trillion yen ($500 billion) of fiscal stimulus since 1992. The problems: excessive inventories, weak job markets, tentative consumers, and soft foreign demand still suffering from yen shock. Fourth-quarter consumer spending appears to have declined, leading many analysts to mark down their estimates for last quarter's gross domestic product. First-quarter outlays look better, given January upticks in retail sales and housing starts, and stronger February car sales.

But the pickup will not allay the nagging inventory problem, especially in autos and electrical machinery, which will force production cuts. January industrial output rose for the fourth month in a row, but shipments fell, pushing inventories higher, and March output expectations show a steep drop. Steel, heavy machinery, chemical, and oil-refining companies were no more upbeat in February than they were in November, according to the *Tankan*.

Amid concerns that the recovery could misfire, financial markets are rethinking earlier beliefs that the BOJ would push rates up. Many analysts are convinced that any hike is on hold until 1997.

ERIC HOFFMANN RW

FOUR REASONS WHY TOSHIBA SELLS MORE PORTABLES THAN ANYONE.

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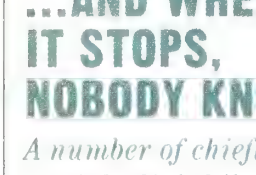
EXECUTIVE PAY

GROSS COMPENSATION?

New CEO pay figures make top brass look positively piggy

...AND WHERE IT STOPS, NOBODY KNOWS

A number of chieftains enjoyed triple-digit hikes, buoyed by generous stock options



ROBERT ALLEN
AT&T

$5.85 million

The CEO's basic pay didn't climb, but an option grant valued at $11 million enraged critics in a year when AT&T announced massive layoffs and shares rose only 28.9%.

RONALD COMPTON
Aetna Life & Casualty

$6.64 million

Aetna shares rose 46.9% last year, aided by the sale of its property and casualty unit. But Compton's compensation far outpaced that, rising 485%.

Business bashers on the campaign trail are about to get a generous gift from Corporate America: news of stratospheric pay increases for top brass, even as many are slashing their workforces at a furious pace.

Even business-friendly pols may have trouble reading the latest mind-numbing numbers without blanching: Aetna Life & Casualty Chairman Ronald E. Compton's compensation skyrocketed 485% last year, to $6.6 million. Morgan Stanley CEO Richard B. Fisher's total pay jumped 318%, to $11.9 million. At Texas Instruments Inc., CEO Jerry R. Junkins got a package totaling $10.7 million, 148% more than the year before.

Behind nearly all the triple-digit CEO pay hikes is a roaring stock market that has led to huge exercises of options—some of which were granted over years. Some $10.8 million of the $14.1 million Oracle Corp. Chairman Lawrence J. Ellison made in 1995 came from a stock option exercise that lifted his total pay an awesome 387%. At Citicorp, nearly $3.8 million of CEO John S. Reed's $8.1 million package, a 57% rise, was from stock options. All told, according to a survey by consultants Pearl Meyer & Partners Inc., average CEO pay at large companies jumped by 23% last year, to $4.37 million. Base salaries rose only 4%, but stock option grants jumped by an average of 45 and CEO bonuses by 39%.

Given the magnitude of their pa hikes, CEOs look like easy game for po on the stump. That goes double if the come off as insensitive to the travails average wage earners during an era downsizing and employee disenchan ment. Just ask AT&T Chief Robert I Allen. His basic salary remained fla last year at $5.85 million. But he can under heavy attack by Pat Buchana and others for pocketing a supplemen tary stock option grant worth near $11 million, even as he announce plans to lay off 40,000 employees. "At time of massive layoffs, it's rubbing sa into the wound," says David N. Swi ford, a pay expert at William M. Merce Inc. "Politicians could start talkin about raising tax rates for high-incom individuals." Even fellow CEO Sanford Weill of Travelers Corp. says Allen ha dled the situation "horribly."

PINK SLIPS. Allen, though, isn't the on CEO to receive a handsome pay packag while simultaneously sending out thou sands of pink slips. At Pacific Telesi which announced layoffs of 19,000 peop during the past four years, Chief Exe utive Philip J. Quigley bagged $2.4 mi lion in total pay last year, a 23% ris Ronald W. Allen, the chief of Delta A Lines Inc., which has announced th elimination of 18,800 jobs since 199 got a mammoth 187% increase in tot pay in 1995, pulling down $1.4 millio And that doesn't include a stock optio grant exercisable in the future curren ly worth $1.9 million. Then there's Bel South Corp., which has announced jo cuts in the past four years totalin 21,200. The compensation of CEO John I

With corporate downsizing alread year's lush pay packages is certain

lendenin climbed 137% to $4.8 million st year, not including an option grant orth $2.3 million more.

Ironically, many of the gains can be ttributed to shareholder pressure to nift compensation to stock-based pay, s well as to government rules on xecutive pay. New proxy rules—set nree years ago—forced boards to ell out specific goals that would nleash incentive pay. To preserve eir flexibility, many simply increased ayouts and often lowered targets. These changes are driving compenation to ever-increasing heights," ays Pearl Meyer, head of the New ork-based pay consultancy. "Absent overnment meddling and institution- shareholder pressure, pay levels ould be far lower."

OLA BREAK. Although most companies ave yet to release their proxy statenents, which contain reports of CEO pay r last year, the early returns show me remarkable comp packages. So far, e single biggest reward has gone to oca-Cola Co. Chairman Roberto C. oizueta. He pulled down $13.1 million st year—and, more important, a stock tion grant of 1 million shares already orth more than $25 million.

Still, Goizueta did perform for his vish recompense. Even the most cal of pay critics, Graef S. Crystal, esn't criticize him too harshly. The ason: Since Goizueta became CEO in 981, the company's market value has sen to more than $100 billion from $4 llion. "He's the Babe Ruth of corpoate CEOs," says Crystal. "It's hard to ink of a major-company chief executve who has had as high and as constent a level of performance."

Many of the other top-paying comanies also performed well—although EO pay hikes far outstripped the gains their stocks. For instance, Texas nstruments' stock zoomed up 50.4% st year, so few investors are likely to ripe about CEO Junkins' $10.7 million aycheck. And Aetna's shares rose 6.9%. Allen looked bad partly because T&T's shares were up only 28.9% last ear—less than the 34% increase in the tandard & Poor's 500-stock index.

As is often the case, smaller, lessernown companies made some of the iggest CEO payouts. Howard Solomon, EO of Forest Laboratories Inc., a New ork pharmaceutical company, made ore than $17 million last year. Melburn G. Whitmire, vice-chairman of Cardinal Health Inc. in Dublin, Ohio, a distributor of health and beauty aids, made nearly $15.4 million. The gains, however, came from the exercise of stock options granted years earlier. Solomon's cash salary and bonus amounted to a relatively modest $610,644. Whitmire's was just $617,359.

Even when CEOs decided not to take advantage of stock market gains, though, they often received sizable hikes in cash pay. After leading Caterpillar Inc. through a bitter strike to record profits, Chairman Donald V. Fites gained a 75% rise in his pay last year, to $3.1 million. The board of directors raised his base salary 25%, to $1 million, and gave him a long-term incentive plan payout of $900,000. Thanks to improved results on Wall Street, Lehman Brothers Inc. more than doubled the cash bonus of Chairman Richard S. Fuld Jr., to $1.5 million. That brought his total take to about $5 million last year.

There's plenty more to come. Morgan Stanley, for one, is asking shareholders to approve an incentive plan that would set aside an extraordinary 86 million shares—some 55% of total outstanding shares—for the investment bank's stock option plan. "I find this breathtaking," says Crystal. "They seem to be doing a creeping leveraged buyout." Morgan says the latest bennies are not only for the senior executive team but also for more than 10,000 of its employees over a 10-year period. "The place works better when people have a sizable interest in the business," says Philip N. Duff, Morgan's CFO.

And so another provocative pay season begins—just as the Presidential election campaign is shiftng into high gear. Not exactly the best time for the nation's CEOs to take the money and run.

By John A. Byrne in New York

$14.14 million

The CEO got most of his 387% pay hike through a $10.8 million gain from exercising stock options. Oracle shares, fueled by the tech-stock boom, rose 44%.

LAWRENCE ELLISON
Oracle

$11.93 million

After he doubled return on equity to 16.2%, directors gave him $6.2 million in bonuses and restricted stock—making for a 318% pay hike. Shares rose 36.7%.

RICHARD FISHER
Morgan Stanley

$13.09 million

A perennial big-time earner, his compensation rose only 7%. But he also got a 1 million-share option grant, now worth $25.6 million. Shares rose 44.2%.

ROBERTO GOIZUETA
Coca-Cola

$10.65 million

After earning $7.7 million on the exercise of stock options, his total pay package climbed 148%; shares rose 50.4%.

JERRY JUNKINS
Texas Instruments

itical hot button, news of last
d the public backlash

TRICKLE-DOWN IS TRICKLING DOWN AT WORK

White-collar workers all over America have learned to expect the modest raises of 4% or so that are now so commonplace. But at Hughes Electronics Corp., there's more: bonuses of up to 8% of annual salaries for employees in divisions that met certain financial goals in 1995.

Hughes isn't alone. From Wal-Mart to Pizza Hut to Deere, companies are jumping on the pay-for-performance bandwagon for the rank and file. IBM will increase workers' pay an average of 8% in 1996, partly the result of incentives tied to divisions' performance. In 1995, nearly 50% of all the companies in a survey by Towers Perrin had cobbled together some form of variable-pay plan for nonexecutives—nearly double the share that did so four years ago. An additional 26% said they were considering such plans. And a survey by human resources consultants Hewitt Associates found that companies budgeted an average 7.6% of payroll for results-sharing awards in 1995—up from 5.9% in 1993.

EASY ADJUSTMENT. Sounds good, right? But for employees, the plans are a decidedly mixed bag. Often, the more money that goes to results-sharing bonuses, the less there is for old-fashioned merit raises throughout the company. Indeed, some 20% of the businesses surveyed by Towers Perrin either reduced future merit-pay increases or froze base pay as they implemented pay-for-performance programs. An employee in Hughes's radar-systems division, which has been a mediocre performer, calls his company's incentive-pay plan "a point of terrific divisiveness."

For Corporate America, incentive-pay plans for rank-and-file employees are an easy way to adjust labor expenses during economic ups and downs. Moreover, done right, pay-for-performance plans can create double-digit productivity gains, says Haig R. Nalbantian, a consultant with benefits specialist William M. Mercer Inc.

The programs, though, can backfire. Just look what happened at Fleet Financial Group Inc., which ended its program in 1995. As part of a two-year cost-cutting effort, management at the Providence bank had created a bonus pool tied to the company's ratio of expenses to revenues and its stock price. The more costs were cut and the higher the stock rose, the more employees were supposed to gain. But when Fleet's stock price remained depressed even after the cost cuts, workers got the minimum payout—averaging $615 per employee. "Considering the blood, sweat, and tears that went into getting the bonus, it turned out to be meaningless," says one former Fleet executive. A Fleet spokesman says: "We think it was a successful, well designed program. Employees received a meaningful payment."

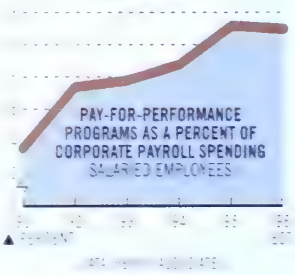
Fleet enraged employees, though, because Chairman Terrence Murray and other top managers received big yearend bonuses that weren't tied to the same measurements. "We were being asked to make sacrifices, but they didn't do the same," says Harrison F. Hazard, a former lending officer.

Other companies have erred by creating programs that inadvertently reward the wrong behavior. Sears, Roebuck & Co., for instance, stumbled in 1992 when it paid commissions to its auto-shop employees that were pegged to the size of repair bills. The result: overbilled customers, charges for work never done, and a scandal that tarnished Sears' reputation.

Some well-designed plans have had the desired effect. Eight times last year, Continental Airlines Inc. employees earned $65 apiece when the airline ranked in the top half of the Transportation Dept.'s monthly on-time ratings for the industry. When Continental took the No. 1 spot in December, the airline upped the bonus to $100 per worker. This year, it raised the goal: Employees won't get a bonus unless Continental ranks in the top three. The incentive seems tiny, especially with workers making as much as 20% less than their industry peers. But Bob Wilson, head of the pilots' union, calls it "a big morale builder."

The question now for Continental and other companies is how to raise the bar without alienating their workers. "The kind of trust that would be needed to have these [pay plans] function long-term probably doesn't exist in a lot of companies," says Todd R. Zenger, an associate professor of organization and strategy at Washington University's business school. That's why, despite some successes, pay-for-performance plans aren't guaranteed to pay off.

SHARING MORE RESULTS



By Wendy Zellner in Dallas, with Eric Schine in Los Angeles, Geoffrey Smith in Boston, and bureau reports

IT DOESN'T LOOK LIKE A CAKEWALK FOR CLINTON

As Dole solidifies his support, the President may be vulnerable

For weeks, White House pols were cackling with delight at the spectacle of Republican candidates campaigning with all the dignity of *The Gong Show* contestants. President Clinton, they figured, could only benefit. But with Bob Dole's eight-state primary slam dunk on Mar. 5, the smirks vanished. Though the President holds a big lead in the polls over likely nominee Dole—and the Kansan's party is deeply divided on critical issues—Clinton's political advisers foresee a tough reelection duel this fall.

ELECTION '96

Given the pummeling Dole has taken from his GOP rivals (page 36), the conventional Beltway wisdom is that Clinton will be a prohibitive favorite for another term. Dole strikes even his Republican backers as a plodding campaigner with other sizable negatives working against him. The GOP's reform agenda is stalled in Congress, and he is often accused of having no agenda of his own. The economy, meanwhile, is in its fifth year of expansion, three of them under Clinton, with few forecasters expecting a recession this year.

Whitewater seems to confirm the feeling of many voters that Clinton lacks the moral fiber to be President

NIGHTMARES AHEAD. Forget conventional wisdom. In reality, Clinton is far from a shoo-in. "There are a lot of nightmares ahead," admits a senior White House official. A Feb. 23-25 Gallup Poll of 1,002 adults showed the President beating Dole 56% to 40%, but other surveys spotlight a chronic Clinton weakness: Voters continue to have grave doubts about his leadership. A Feb. 22-29 Harris Poll of 1,005 adults found that the President's negative rating has been rising steadily, to 53%, from 48% in November. Says Harris CEO Humphrey Taylor: "No President with a negative rating just before an election has ever been reelected."

The Republicans think they know why Clinton lags in voter esteem. "The character issue is his biggest problem," says Republican moral crusader William J. Bennett. "He's guilty of political infidelity—making promises and then breaking them." And the GOP is planning to drive that point home from now until Election Day. The Republican National Committee has a vault full of videotapes showing Clinton flip-flopping on issues from balancing the budget to reforming welfare to cutting middle-class taxes. Armed with a $60 million war chest, the RNC will offset Dole's campaign cash shortage with an anti-Clinton advertising blitz.

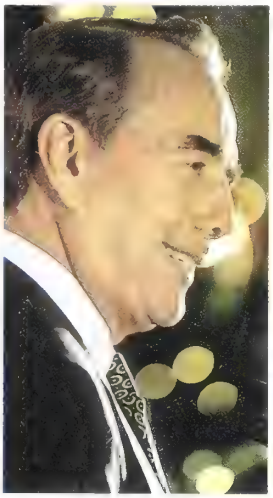
Thanks to some serendipitous timing, the Republicans may get help from a new book that reveals embarrassing details about Bill and Hillary Rodham Clinton's Arkansas business deals. The splashy Mar. 15 release of *Blood Sport: The President and His Adversaries*, by Pulitzer Prize winner James B. Stewart, will give new punch to Hill Republicans' long-running probe into the Whitewater affair. More ominous for the White House, Whitewater special prosecutor Kenneth W. Starr is tightening the legal noose around many of the Clintons' former associates.

Whitewater matters because it seems to confirm voters' sense that Clinton lacks moral fiber. By contrast, the 72-year-old Dole may lack energy and vision, but stature he's got in spades. "One reason you vote for President is that you see him as your father," says Michigan pollster Ed Sarpolus. "Clinton is not seen as the total person you want your son to be."

When trouble looms, Presidents fall back on taking credit for a strong economy. But with growth slowing and worker anxiety surging, Clinton can't crow too much this year. Experts suggest that economic insecurity is one reason for the recent dip in the President's approval rating. Pollster Stanley B. Greenberg, a top adviser to Hill Democrats, warns that Clinton could have trouble wooing back workers under 50 who don't have a college education. Clinton did well with this group in 1992, but they voted Republican in 1994. Now, fewer than 10% of them think Democrats understand their economic concerns, Greenberg says.

LIST OF DOUBTS. The electoral map may work against Clinton, too. Sunbelt states with the fastest growth—such as Texas and Florida—are polling as Republican. Of the 270 electoral votes needed to win, Clinton has 97 comfortably in his corner vs. 130 for Dole, according to the latest estimate by Cook & Co., nonpartisan political analysts. Even if the GOP concedes California's 54 electoral votes, Clinton must pull an inside straight in the industrial heartland. He won these states in '92, but his top aides are worried about losing Ohio, Illinois, and Michigan.

At 72, Dole may lack energy and a vision. But as a seasoned warrior, he's got stature in spades



Foreign policy woes are another potential Clinton pitfall. In recent weeks, the President has had to contend with crises in Cuba and Israel and with renewed Irish Republican Army bombings. What's more, Clinton's deployment of troops to Bosnia could yet turn bloody. And Dole could capitalize on any overseas crisis by reminding voters of his military experience.

Quite a list of doubts for Clinton & Co. to grapple with. Clinton is the odds-on favorite for now. And were the election to hinge on his issues—devotion to education, the environment, and protecting seniors—he likely would win in November. But there's far more to it than that. That's why Clinton's aides are taking Dole a lot more seriously than the capital pundits are.

By Susan B. Garland, with Stan Crock, in Washington

RENEGADE Even if Buchanan–on TV during a debate in Atlanta–doesn't bolt the GOP, his troops may

THE PRIMARIES

BUCHANAN WON'T GO GENTLY INTO THE POLITICAL NIGHT

His crusade could bedevil the Republicans into November

Pat Buchanan's populist bandwagon seems to have skidded off the campaign trail well shy of the August Republican convention. Ambushed in Arizona and crushed in South Carolina, Buchanan was shut out by Bob Dole in contests on Mar. 5 from New England to Georgia. With the field dwindling and Buchanan unlikely to find Southern comfort in the Mar. 12 Super Tuesday primaries, Dole now seems headed for the GOP nomination.

ELECTION '96

Still, this is no time for the senator from Kansas to relax. Steve Forbes, whose lagging campaign won a Mar. 6 endorsement from former Bush Cabinet member and Representative Jack F. Kemp, will continue to push his supply-side agenda, including a flat tax. Buchanan, though battered, shows no signs of going quietly either. His crusade to steer the GOP toward economic nationalism and hard-line opposition to abortion could bedevil the party all the way to the November general election.

Buchanan has also threatened to [illegible] the GOP for an independent run if it [illegible] an abortion-rights backer for [illegible] President. For Republicans, such [illegible] it is cause for deep concern. "If [illegible]nan does that, he would get [illegible]h votes to destroy the Republicans' chances" against Clinton, says Cornell University political scientist Theodore J. Lowi.

The effects of a conservative third party could be far-reaching. Buchanan's fiercely independent coalition of social conservatives, blue-collar populists, and Perotista reformers could form the core of a potent "third force" that lures anxious workers and struggling entrepreneurs away from the Republican party. "There is a potential realignment of American politics that would unite [white-collar] employees of Corporate America, small and midsize businessmen, and blue-collar workers," says Kevin L. Kearns, president of the U.S. Business & Industrial Council.

Even if Buchanan remains a Republican, his movement is giving renewed momentum to fellow populist Ross Perot. The Texas billionaire is busily getting his Reform Party on state ballots, and he hasn't shut the door on a second race for President. Either candidate would find a sizable pool of receptive voters: A Feb. 22-29 Harris Poll of 1,005 adults found that 18% of voters say they won't supprt either Dole or President Clinton.

Before they worry about third parties, though, GOP pros must first contain the intern[illegible] damage inflicted [illegible] the presumpti[illegible] nominee, who [illegible] Buchanan derides [illegible] "Beltway Bob, be[illegible] hop of the Bu[illegible]ness Roundtabl[illegible] Buchanan issu[illegible] such as the pro[illegible]lems of blue-coll[illegible] workers and prote[illegible]tionism make Esta[illegible]lishment Repub[illegible]cans extremely uncomfortable, sa[illegible] Kearns. "They may pay some lip se[illegible]vice to the plight of these voters. B[illegible] with the big corporations footing t[illegible] bill, their economic policies preve[illegible] them from doing anything about it.

DOLE'S DILEMMA. Dole strategists a[illegible] trying to find ways to appropria[illegible] Buchanan's appeal to economic ang[illegible] without embracing his protectionism [illegible] business-bashing rhetoric. Among t[illegible] ideas: stressing how a Dole tax c[illegible] would provide more cash for midd[illegible] class voters and linking government re[illegible]ulation to job cuts. To lure Forbes v[illegible]ers, Dole has been talking more abo[illegible] some sort of flat tax and the stimulati[illegible] effect of tax cuts on the economy.

Still, even if Dole can que[illegible] Buchananites' economic anxieties, [illegible] faces potentially wrenching problem[illegible] on the issue of abortion. In addition [illegible] an anti-choice Vice-Presider[illegible] Buchanan is demanding that the par[illegible] resist any weakening of its aborti[illegible] platform. Dole can't afford to aliena[illegible] vehement abortion opponents—but [illegible] he appears to be capitulating [illegible] Buchanan, he could drive away pr[illegible] choice moderates.

Republican leaders still ho[illegible] Buchanan will fall back into line. F[illegible] brigades might not follow his order[illegible] though. "Even if Pat stays within t[illegible] Republican Party, you have this dise[illegible] franchised bloc of voters that's wa[illegible]dering around the desert seeking t[illegible] promised land," says David Rucker [illegible] Associated Conservatives of Texas. [illegible] group of hard-line activists. "Th[illegible] remember the vicious personal attac[illegible] on Pat Buchanan, and they're not a su[illegible] bet to go to Bob Dole."

It will take all of Dole's vaunted de[illegible] making skills to entice t[illegible] Buchananites. But he has little choic[illegible] Unless he manages to bring most [illegible] Pat's pals into the GOP big tent, [illegible] string of March victories could [illegible] small consolation in November.

By Richard S. Dunha[illegible]
in Washingt[illegible]

COMMENTARY

By James C. Cooper

THE BUDGET BUNGLE WILL COST AMERICA DEARLY

Somewhere between the partisan bickering that caused shutdown II in January and Pat Buchanan's fear-mongering in February, Washington flubbed a golden opportunity to enhance the economy's near-term outlook and solidify its long-term future as the world's most competitive economy. The failure of Congress and the White House to reach an agreement on balancing the budget is more than just another sad comment on Washington's ineptitude. It's adding to the risk of a recession.

Never mind that the U.S. government is halfway into fiscal 1996 and still without a budget, or that on Mar. 15, Congress once again must vote to increase the debt ceiling so that the U.S. Treasury will not default on its IOUs. The real problem is the lost opportunity to finally fix the deficit. Back in November, Federal Reserve Chairman Alan Greenspan issued this stern warning: "If for some unforeseen reason, the political process fails, and agreement is not reached, it would signal that the U.S. is not capable of putting its fiscal house in order, with serious adverse consequences for financial markets and economic growth." How could such a blunt message have fallen on deaf ears?

CAPITOL FREEZE: *It's time to break the ice*

BULL MARKET DANGER. The cost of Washington's pigheadedness now is coming due. Even though the economy is fragile, long-term interest rates are rising, partly because Wall Street is coming to believe that a once-serious effort to eliminate the deficit is now dead. And investors in long-term U.S. securities are once again demanding a premium to cover the potential inflationary consequences of the government's fiscal irresponsibility. If there were a credible budget deal on the horizon, we could expect bond yields on the order of 5.5%. Instead, yields on 30-year Treasuries, which had dropped below 6% in January, are now back up to 6.4%. Fixed mortgage rates have jumped, and the number of mortgage applications is falling.

Back in December, forecasts of a second-half pickup this year were predicated on a budget deal that would cut long-term rates and give the Fed added leeway to trim short rates. But in the absence of a budget compromise, chances for a truly solid rebound probably are gone. That could hurt corporate earnings and even imperil the bull market in equities.

The deficit issue is not just pie-in-the-sky rhetoric about America's future. High interest rates rob the economy of jobs. They cut into demand, and they make private-sector investment, so crucial to U.S. competitiveness, more costly. Workers need assistance, with corporations making wrenching adjustments to compete in a global economy and to bring new technologies online. But the deficit's drain on national savings limits government's ability to invest in human capital and give many workers the skills and training they need to make the transition. That affects future wages and U.S. living standards.

CORROSIVE EFFECTS. Washington dropped the ball on this issue because no one has focused on the human cost of ignoring the deficit's corrosive effects. That's also a shortcoming of every Presidential hopeful in the current crop. Unfortunately, the deficit is one issue in which political considerations seem destined to overtake common sense. Deep down, too many Democrats still believe that we can tax and spend our way to prosperity—just as many Republicans think that we have to slash taxes and dismantle the Federal government to get there.

Pat Buchanan is trying hard to scare the bejesus out of the middle class, and his lock-and-load rhetoric on immigration, foreign trade, and jobs plays well as sound bites. But if you want a fact that's really worth worrying about, consider this: If mainstream Republicans and Democrats don't get back on the deficit-cutting track, their failure will result in very real costs to Americans, both near term and in the future. If the economy falls into recession during the coming months, this will be the first time in a long while that Washington's bungling of fiscal policy will share a big part of the blame.

Senior Economist Cooper is editor of the Business Outlook column.

Rates are rising partly because Wall Street lost faith in the deficit-cutters. That raises the odds for recession

MARY WINNE SAEA

RAGTOP: *The Sebring JXi shoul bolster Chrysler's '96 lineup*

STRATEGIES

BLOWING THE DOORS OFF FORD AND GM

Strong sales and fat margins make Chrysler the envy of Detroit

Chrysler Chairman Robert J. Eaton is on a roll. His battle with disgruntled investor Kirk Kerkorian behind him, Eaton can devote his full attention to keeping Chrysler hitting on all cylinders. And he may not have to do much tinkering. Chrysler Corp. has few costly model changeovers to make this year, and its trademark minivans and Jeeps are selling briskly. Eaton figures the company's record 207,000 unit sales in February bode well for 1996. "It's going to be a very good year for us," says Eaton. Indeed, analysts think Chrysler may come close to matching 1994's record $3.7 billion in earnings.

Chrysler's cheery outlook is in marked contrast to the darker moods at Ford Motor Co. and General Motors Corp. Ford, continuing to struggle with bloated product-development costs, said in late February that it plans to pare back its engineering ranks by 21% during the next two years, mostly by eliminating outside contractors. GM faces the launch of a half-dozen new vehicles in the next 12 months, which could cut into its productivity and profits. Chrysler, meanwhile, came out with a new [illegible] of minivans last year and has just opened a new 120,000 unit pickup-truck [illegible] in St. Louis. The company has bolstered its car lineup by putting in place strategic additions such as the Plymouth Breeze compact and Chrysler Sebring convertible.

Not that there aren't hurdles ahead. GM is introducing a new minivan later this year that could steal some of Chrysler's 47% market share in the segment. A rush of new Japanese sport-utility vehicles could put pressure on Chrysler's Wrangler and Cherokee models, and Chrysler's Neon subcompact faces stiff competition from redesigned Honda Civics and Ford Escorts. Chrysler's trucks now rank above average in J. D. Power quality surveys, but many of its cars continue to have a bad reputation. "It's almost like two companies, and the challenge is to upgrade the cars," says independent auto analyst Scott Merlis.

Still, even Chrysler executives were wide-eyed when the company's truck sales surged ahead 30% in February vs. the same month a year ago—and car sales unexpectedly increased 7%. "We picked up market share across the board," says Chrysler sales chief James P. Holden. "[illegible] hope is that we can sustain it."

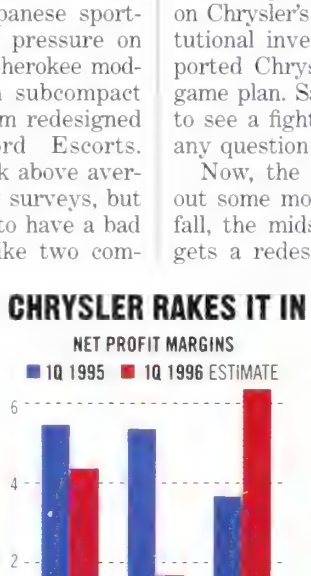
Chrysler's truck lineup is its [illegible] edge—that is, until another ener[illegible] crisis hits. Trucks accounted [illegible] 70% of first-quarter productio[illegible] New minivans posted sales ga[illegible] of 35% and the Dodge Ram pick[illegible] 57% vs. the year-earlier peri[illegible] High-profit Jeep Grand Cheroke[illegible] also sold robustly. That's one reas[illegible] Chrysler generates more th[illegible] $18,000 in revenue per vehic[illegible] $2,000 more than Ford and [illegible] "Chrysler continues to beat t[illegible] socks off Ford and GM because th[illegible] have products that the upscale cu[illegible] tomer wants," says Merlis.

With a lower cost base than its riva[illegible] Chrysler is enjoying higher margi[illegible] Salomon Brothers Inc. estimates Chr[illegible] ler will earn $892 million on revenues [illegible] $13.9 billion in the first quarter, fo[illegible] 6.4% net margin. That compares w[illegible] 4.4% at GM and 1.7% at Ford (cha[illegible] Chrysler's stock, which has been tradi[illegible] at about $57 recently, could hit $75 t[illegible] year, says Lehman Brothers Inc. anal[illegible] Joseph Phillippi.

HOT PRODUCTS. The strong outlook [illegible] 1996 played a part in Chrysler's Feb[illegible] truce with Kerkorian, the auto make[illegible] largest shareholder, who agreed not [illegible] increase his 14% Chrysler stake for f[illegible] years. Kerkorian backed off on a pro[illegible] fight to put top aide Jerome B. Yo[illegible] on Chrysler's board partly because ins[illegible] tutional investors enthusiastically su[illegible] ported Chrysler's management and [illegible] game plan. Says Eaton: "People want [illegible] to see a fight, but I don't think ther[illegible] any question that it's all over."

Now, the main challenge is to sp[illegible] out some more hot new products. T[illegible] fall, the midsize Dodge Dakota pick[illegible] gets a redesign to make it look mo[illegible] like the highly succe[illegible] ful Rams. Models [illegible] 1998 will include a[illegible] new versions of t[illegible] company's LH seda[illegible] and a new sport-ut[illegible] ity for the Dod[illegible] brand. Eaton promis[illegible] vigilant attention [illegible] manufacturing to i[illegible] prove quality. Ev[illegible] with the momentu[illegible] going their way, Eat[illegible] & Co. don't want [illegible] rest on their laurels.

By Bill Vlasic
Auburn Hills, Mich.



COMMENTARY

By Christopher Farrell

THE NEW MATH OF HIGHER EDUCATION

Ah, that college sheepskin: Turn-of-the-century philosopher William James called a college education "the yeast-cake for democracy's dough." In the decades following World War II, higher education became the much-envied engine of the U.S. economy by advancing knowledge, creating human capital, and stoking upward mobility.

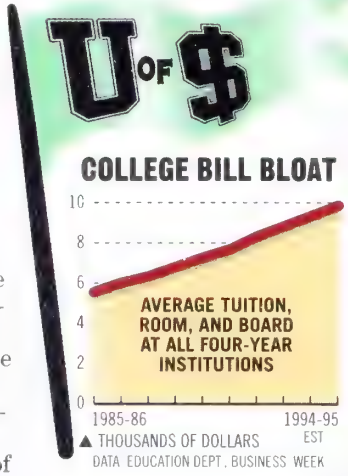
Lately, though, the price tag for a college degree has gone through the roof. Since 1980, average tuition at all four-year colleges has soared by more than 86%, after adjusting for inflation. The yearly cost of college now absorbs about 25% of median family income, vs. 17% in 1980. During the next few weeks, as parents and their children await missives from university admissions offices, more and more will be asking: Is a college degree still a worthwhile investment?

BIG GAP. By several measures, the answer is yes. Today, some of the most sought-after employees are those comfortable working with computers and telecommunications equipment—and, too, those able to work in teams and to communicate effectively. To many employers, that means college-educated folks. In 1979, male full-time workers 25 and older with at least a bachelor's degree earned, on average, 49% more a year than comparable high school grads; by 1993, the gap had widened to 89%. Says Thomas G. Mortenson, publisher of the *Postsecondary Education Opportunity* newsletter: "About the only thing more expensive than going to college is not going to college."

Little wonder college enrollment has jumped by a third since 1980. Americans recognize that, in an increasingly tight labor market, a college diploma represents a ticket to relative economic security. "We're producing more college graduates than before, and the payoff still remains strong," says Thomas J. Kane, an economist at Harvard's Kennedy School of Government who is on leave at the Administration's Council of Economic Advisers.

> "About the only thing more expensive than going to college is not going to college"

Look at it another way. The latest Economic Report of the President pegs average educational costs and forgone earnings at $22,200 a year at four-year institutions. Economic research assigns about 75% of the wage gap between college- and high school-educated male workers to schooling. Assuming that the current wage gap persists between those workers, that puts the rate of return on four years of college at about 11%—beating most financial instruments over the long haul. And this return is before taking into account the intangible benefits of a higher education, such as making better citizens and smarter consumers.



Economists are less certain whether investment returns hold up for the nation's more expensive schools, where annual costs run at least 50% higher. What matters more than a top school, some research suggests, are good grades and the right major. In 1993, for example, median earnings for male mid-career workers who majored in engineering exceeded median earnings of those who majored in philosophy, religion, and theology by two-thirds, according to Bureau of Labor Statistics economist Daniel E. Hecker. A software engineer from a state school stands to make more than an Ivy League philosopher.

VALUABLE ASSET. Still, rivalry for entrance at top-tier institutions remains fierce. "A lot of people think it's well worth the extra cost," says Michael S. McPherson, economist at Williams College. "The market is telling us that the education is valued." Top-notch educational credentials bring valuable social networks, job-market status, and an entrée into lucrative professions such as investment banking. At least, that's what many Americans perceive. Thankfully, the cost of going to college isn't rising as fast as it did for many years. And students are negotiating bigger discounts than ever. In our emerging knowledge economy, even at a high price, higher education clearly pays. Those without it are the ones losing ground.

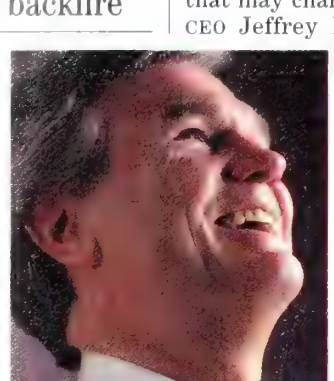
Farrell writes on economics.

COMPUTERS

COMPAQ STARTS A PC BRAWL

Its sales have taken a hit, but price-cutting could backfire

Eckhard Pfeiffer isn't backing down. In 1994, Compaq Computer Corp.'s chief executive laid out a strategy to grab twice the market share of his nearest rival PC maker by 2000. Since then, Pfeiffer has expanded the computer company's revenues at twice the industry's rate. In its December quarter, Compaq posted an astounding 45% revenue jump, to $4.7 billion.



PFEIFFER: *Can new servers and PCs win the price war?*

So when Compaq's corporate PC sales and margins took an unexpected hit in February, Pfeiffer stepped on the gas. On Mar. 4, he chopped PC prices by as much as 21%. The idea: Use lower prices and heavier dealer incentives to reach for 35% revenue growth—margins be damned. The move stunned Wall Street, which drove down Compaq shares by 18%, to around $40. Analysts, meanwhile, began slashing earnings forecasts for 1996, from about $4.80 per share to $4.20. Compaq's pricing move prompted competitors, including Hewlett-Packard, Digital Equipment, and IBM, to follow suit—some of them with cuts of nearly 30%.

RESTLESS DEALERS. Underlying Pfeiffer's moves are some little-noticed shifts in the PC industry that could make the strategy even riskier than it seems. Businesses increasingly are buying low-priced home PCs for their offices, and that threatens the margins of Compaq and other companies that specialize in sophisticated machines. The worry for PC companies: that the 25% to 38% gross margins typical of business [illegible] and network servers will fall [illegible] the scant 15% margins of [illegible] PCs as price wars spread from the home to the business market.

The risk is real because many corporate PC dealers are demanding the right to sell home computers to businesses. Home PCs now are available mainly through mass merchandisers; corporate dealers are usually prohibited by contract from selling them. But that may change soon. Says MicroAge CEO Jeffrey McKeever: "There's too much pressure to do it; as soon as one breaks ranks, the others will."

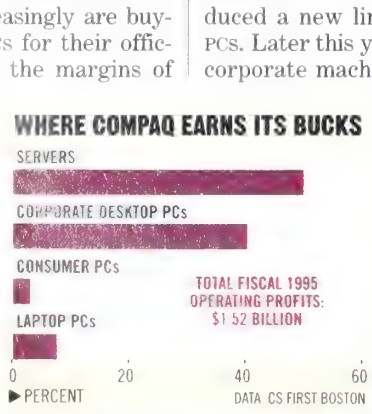
Pfeiffer's second big worry: HP, IBM, and other major rivals are targeting Compaq's hugely profitable business selling servers—machines that connect desktop PCs to networks. Servers account for about half of Compaq's profits (chart). And Intel Corp. is giving a boost to Compaq's rivals by selling designs and processor boards that allow any computer maker to build high-end servers, using off-the-shelf disks and software.

Compaq is feeling the heat. HP and IBM already are nipping into Compaq's server market share. Starting in June, those rivals, as well as Dell Computer Corp., plan to offer servers using Intel boards. Such pressure is one reason that in 1995's fourth quarter, Compaq's share of the server market fell to 33%, from 39% in the third quarter, estimates researcher International Data Corp. Promises IBM Personal Computer Co. Group Executive Robert M. Stephenson: "That isn't going to let up. I'm going after that market with a vengeance."

Pfeiffer's counterstrategy: make Compaq's corporate PCs and servers less vulnerable to price wars by rushing out new models. On Mar. 4, Compaq introduced a new line of speedier business PCs. Later this year, it will bring out new corporate machines with features such as a network management system built in. It's a typically forceful response. The question now: Is Pfeiffer's precarious game plan good enough to keep the company on track?

By Gary McWilliams in Houston, with Ira Sager in New York

WHERE COMPAQ EARNS ITS BUCKS



THE PRESS

A LANDMARK VICTORY

Freedom to publish is firmly upheld by an appeals court

There was nothing ambiguous abo this ruling. On Mar. 5, the U. Court of Appeals for the Sixth C cuit sharply rebuked U. S. District Co Judge John Feikens for barri BUSINESS WEEK last September from pu lishing a story based on sealed do ments from a suit between Procter Gamble Co. and Bankers Trust Co. also criticized his decision to hold a he ing to discover how BUSINESS WEEK h obtained the documents.

Feikens, the court found, "engag[e in a practice that, under all but the mo exceptional circumstances, violates t Constitution: preventing a news orga ization from publishing information in possession on a matter of public co cern." The lower court's handling of t case even was described as "ludicrou

At the center of the battle was t First Amendment and the concept prior restrai

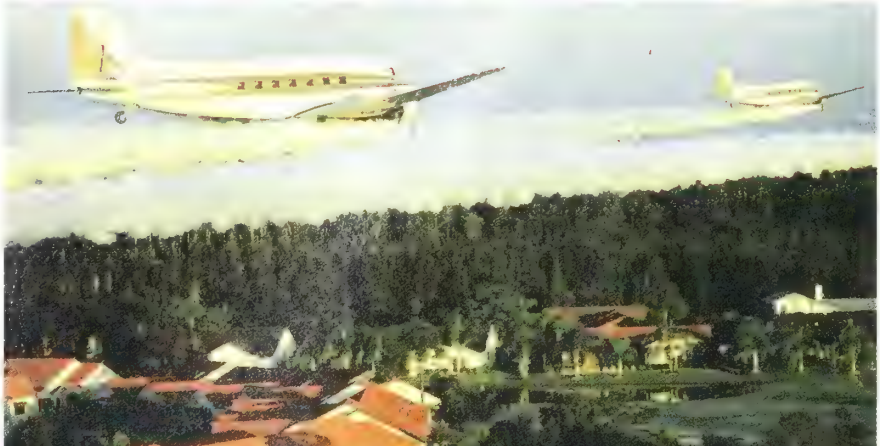
Courts long ha ruled that or rarely can a ne organization prevented fro publishing. T lower court's va ous orders ch lenged that leg precedent. "W couldn't let that stand," says Stephen Shepard, editor-in-chief.

In its ruling, the appeals court al found fault with the lower court's wi ingness to allow P&G and Bankers place documents under seal at whi "The parties were allowed to adjudica their own case based upon their ov self-interest," the court ruled. Cour "cannot abdicate [their] responsibility oversee the discovery process."

The story wound up on BUSINE WEEK's cover in October, once Feike unsealed the disputed documents. N everyone found it a good read, thoug Circuit Judge Boyce F. Martin Jr. wro in a concurring opinion that he was "at loss as to why BUSINESS WEEK felt th information was so newsworthy." Tha the point: It's the media's job to deci what to publish—not the court's.

By Elizabeth Lesly in New Yo

$55,000,000
7.11% Senior Notes Due 2010
$25,000,000
6.89% Senior Notes Due 2005
for
Conair Corporation
The undersigned acted as financial advisor in structuring and arranging a private placement of the securities
First Union Capital Markets Corp.
FIRST UNION



ENVIRONMENT

FROM *SILENT SPRING* TO BARREN SPRING?

A new book says pesticides may threaten human reproduction

After a pesticide accidentally spilled into Florida's Lake Apopka, alligators were born with half-size penises. In the laboratory, rats given DDT developed striking abnormalities of their genitalia. Male fish and birds exposed to pesticides in the Great Lakes became unable to reproduce.

These disquieting findings are the subject of a controversial new book that could become the biggest scientific and public-relations bombshell to hit the chemical industry since Rachel L. Carson's 1962 classic, *Silent Spring*. In *Our Stolen Future: How We Are Threatening Our Fertility, Intelligence & Survival—a Scientific Detective Story*, authors Theo Colborn of the World Wildlife Fund, Dianne Dumanoski of *The Boston Globe*, and John Peterson Myers of the W. Alton Jones Foundation for the first time summarize the potential dangers of "endocrine disrupters," chemicals that interfere with reproductive hormones. The book is backed by some heavy hitters: Vice-President Al Gore wrote the preface; environmental flack David Fenton, who in 1989 stirred up a frenzy over the use of Alar on apples, is handling its PR.

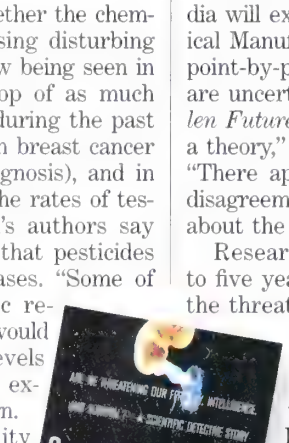
Behind *Our Stolen Future* is the realization that DDT, PCBS, and hundreds of other chemicals can mimic estrogen and testosterone. In so doing, they can disrupt the endocrine system, which regulates reproduction.

The big question is whether the chemicals in question are causing disturbing reproductive problems now being seen in humans: an apparent drop of as much as 50% in sperm counts during the past few decades, a 30% rise in breast cancer (partly due to better diagnosis), and in some areas a tripling in the rates of testicular cancer. The book's authors say the evidence is growing that pesticides play a role in the increases. "Some of the human epidemiologic research that's coming out would suggest that we are at levels right now where we could expect effects," says Colborn.

The scientific community

BOMBSHELL

The chemicals may be linked to lower sperm counts, infertility, and cancer



DANGEROUS FALLOUT? *New fears are accelerating EPA research*

is heeding the warning. The Enviro mental Protection Agency has expan ed research on endocrine disrupte fearing they could become "a very se ous problem," says Robert J. Hugge the head of EPA's research office. Befo he joined the EPA, Huggett, a mari chemist, studied an antifouling age for ships' hulls—tributyl tin—which h dramatic side effects. "It changed t sex of some species of oysters a changed the whole shape of the oyste he says.

DISPUTED DATA. Also worrisome is t chemicals' multiplier effect, says La rence W. Reiter, director of an EPA labo atory in Research Triangle Park, N. "The body is exquisitely sensitive to the hormones," he says. "If you have an en ronmental chemical which interferes w those hormones at very small levels exposure, the possibility of producing a verse effects is amplified."

Aware of the concerns, the Chemic Industry Institute of Toxicology, company-backed research group, h moved 10% of its research budget in the study of endocrine disrupte "There is sufficient information, albe some of it fairly weak, that does wa rant detailed and rigorous investig tion," says Paul Foster, the institut director of endocrine toxicology.

Still, the industry worries that the m dia will exaggerate the risks. The Che ical Manufacturers Assn. has prepared point-by-point rebuttal of what it sa are uncertainties and errors in *Our S len Future*. "We view this book as raisi a theory," says CMA official Sandra Tir "There appears to be a fair amount disagreement in the scientific communi about the interpretation of the data."

Researchers say it will take thr to five years to assess the magnitude the threat. If the risk is confirmed, t chemical industry could fa a serious challenge. "This raising an issue that is like to stir up the public," sa Reiter. "It has some fund mental implications in terr of reproduction and develo ment. That strikes home with lot of people."

In *Silent Spring*, Carson wo ried about the disappearance birds. Now the issue is the po sible disappearance of our ov unconceived offspring and the fe that the latest endangered speci could be us.

By Paul Raeburn in New Yo

Franklin Tax-Free Income Funds

Protect Your Investment Earnings From Taxation.

Are taxes taking a toll on your investment earnings? You can help protect those earnings in a Franklin tax-free fund.

Franklin offers a selection of 42 tax-free funds. Many pay dividends exempt from both regular federal and state personal income taxes, so you may be eligible for double tax savings.† Franklin's tax-free funds offer:

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EDITED BY KELLEY HOLLAND

REACH OUT AND JUMP A CLAIM

CROSSED WIRES ARE TAKING on a whole new meaning. Now that the regulatory floodgates have opened, telecom companies are tripping over each other in their rush to enter each others' markets. Consider the moves this week: AT&T completed filings to offer local telephone service in all 50 states and hopes to start handling local calls in some regions by this summer. GTE began offering long-distance service for the first time to its local calling customers in Michigan and Minnesota. BellSouth announced plans to offer local service in those parts of Florida now controlled by Sprint. And Pacific Telesis filed with state regulators to offer long-distance calling in California, the first of the Baby Bells to seek to offer long-distance service in its own region. To quote Bette Davis, "Fasten your seatbelts. It's going to be a bumpy night."

CLOSING BELL

IN FAT CITY

Neurogen crossed a major threshold on Mar. 4 when it began clinical trials of its anti-obesity drug. Under a deal with Pfizer, Neurogen will test NGD95-1 on healthy but obese men and women. NGD95-1, one of several anti-obesity drugs in development, blocks a brain transmitter that stimulates appetite. The industry sees a $3 billion market for anti-obesity treatments, and Neurogen's stock reflects that rosy view: its shares rose $2.25, to $34, on news of the trials, then slipped $1.25 on Mar. 5 as traders took profits.

MAR. 5

BLOOMBERG FINANCIAL MARKETS

RJR BUYS SOME RELIEF FROM LEBOW

TAKE THAT! RJR NABISCO finally lobbed a hand grenade at its nemesis, activist shareholder Bennett LeBow. On Mar. 5, the company boosted its dividend by 23%, to $1.85, higher than expected, and adopted a program to repurchase 10 million shares during the next several years, with $100 million allocated for 1996. Analysts say the RJR moves will hurt LeBow's chances of winning the proxy battle slated for the annual meeting on Apr. 17, where shareholders will choose between the incumbent board of directors and one led by LeBow.

A SALE AT SAKS?

JUST LIKE PLATFORM SHOES, those old rumors have a way of coming back. Retailing and Wall Street sources say that Bahrain-based Investcorp is preparing to sell a stake in Saks Fifth Avenue to the public. Investcorp bought the upscale retailer in 1990 for a cool $1.6 billion. Wall Street has been expecting a partial sale, especially since Investcorp made big money selling a slice of Gucci Group in 1995. Saks' lackluster performance long made a deal impossible. But after store closings and refurbishings, things are looking up. Says Henry Jackson, a principal at Peter J. Solomon: "I think it will be a very successful offering." Neither Investcorp nor Saks Fifth Avenue will comment.

HEADLINER: WILLIAM HENRY

TWO BREWERS HIT THE ALTAR

For more than a decade, the beer buzz said that Detroit-based Stroh Brewery wanted to buy G. Heileman Brewing, the Wisconsin maker of Old Style and Pink Champale. Stroh CEO William Henry had watched this prize change hands three times since joining the company in 1981. Henry slaked his thirst on Feb. 29 by agreeing to buy Heileman for close to $300 million.

The deal gives No. 4 Stroh more than 9% of the beer market. But hold the toasts: Both Stroh and Heileman saw volume decline in 1995. Henry figures the two brewers are a good fit, and he may be able to cut some overlap.

A former Ford bean counter, Henry has been adding fizz to Stroh's performance since he became president in 1991. Stroh ships beer all over the world, and at home, where young drinkers favor pricey microbrews, Stroh brews ale under contract for the likes of Samuel Adams. Stroh's own brands are in the so-called subpremium segment, where profits are just that. Now, Henry has some new brews he can play with.

By Kathleen Kerwin

CHINA NABS A FEW SOFTWARE PIRATES

IN A BID TO STAVE OFF MORE than 1 billion in possible U.S. sanctions, Beijing is vowing to close up to six plants that have been churning out pirated copies of American compact discs. Authorities arrested 50 people at the plants and say some could face lengthy jail terms. But the pledge is unlikely to mollify U.S. officials, who have heard such promises before. U.S. Trade Representative Mickey Kantor has threatened to slap punitive duties on Chinese goods if Beijing fails to curb piracy of American software, music recordings, books, and movies.

MOBIL GETS MOBILE DOWN UNDER

LUCIO NOTO IS A BUSY MAN. The 57-year-old Mobil Oil chief executive, who took over in March, 1994, cut an nual operating costs by $30 million in 1995. And Mobil Feb. 29 deal to combine som European operations wit British Petroleum shoul save another $150 millio But with natural-gas produ tion declining at one of th company's big fields, Mob must step up other explor tion activity. That's why o Feb. 13, Mobil bid $1.1 bi lion to buy Australia's An polex. That company hasn yet formally responded.

ET CETERA . . .

- Daniel Akerson, forme head of General Instrumen joined Nextel as CEO.
- Hercules CEO Tom Gossag quit Grace's board after hi friendly bid was rebuffed.
- Piper Jaffray was fine $1.9 million for inadequat disclosures on fund risks.
- *The Washington Post* say AT&T is talking deals wit AOL and others.

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and her daughter

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DITED BY OWEN ULLMANN

THE NEW REPUBLICAN MOTTO: MAKE DEALS, NOT WAR

A year ago, fresh from their stunning capture of Congress, Republicans were taking no prisoners as they ruthlessly pushed their Contract With America. Now, the shell-ocked GOP is regrouping for one last charge up the legisla-ve Hill. Today's rallying cry: Compromise!

Big tax cuts are out. So is any hope of balancing the bud-t by 2002. Radical regulatory overhaul has been dropped, d Medicare reform is barely alive. Many Republicans will ttle for a pale imitation of last year's revolutionary plan. ob Dole needs legislative victories, now that he appears to heading for a November showdown with President Clinton. nd House Republicans are eager for a w wins to inoculate themselves ainst charges that they can't deliver. 'hey need to get some points on the ard," says one business ally.

URDEN. With deficit-hawk Dole pro-ding the push, the GOP still has a ance to pass watered-down welfare, gal, and regulatory reforms plus small st savings in Medicaid and Medicare. epublicans seem ready to cut a quick al with Clinton on a fiscal 1996 spend-g bill that will keep the government nning through Oct. 1.

DOLE AND GINGRICH: *Softer speech*

The burden for pulling together the tattered Republican enda now passes to Dole, who needs to burnish his can-do age for election day. With House Speaker Newt Gingrich -Ga.) turning over day-to-day leadership of his troops to utenants, it will be up to Dole to unite bickering Republi-ns. Hard-liners want to force Clinton to veto an aggressive ckage of tax and spending cuts they would attach to a bill tending Treasury borrowing authority beyond mid-March. ut party pragmatists—with tacit support from Gingrich—say ey can't risk taking the blame for another government cri-s. "We want a bill Clinton can sign," says one House GOP adership aide.

Cutting a budget deal may be the biggest hurdle. The White House—egged on by House Democrats—has been stalling, since voters seem more focused on economic angst than budget balancing. Still, Clinton would love to boast in November that he cut the deficit, reduced middle-class taxes, and reformed welfare, so common ground may be found.

HOT BUTTON. One approach, pushed by Senate Budget Committee Chairman Pete V. Domenici (R-N.M.), would save $350 billion in entitlement spending by 2002 but postpone tax cuts until a balanced budget is adopted. An alternative would have Congress vote on separate bills, say, welfare reform, then Medicaid. If Clinton and the GOP can agree on anything, it is probably welfare reform, which has broad bipartisan support. Medicaid will be much tougher, although the GOP could win modest concessions if it agrees to keep the program a federal entitlement.

As for Medicare, Domenici and Senate Finance Committee Chairman William V. Roth Jr. (R-Del.) are looking for some $150 billion in savings through 2002 to postpone insolvency. But if Clinton keeps stonewalling, House Ways & Means Chairman Bill Archer (R-Tex.) would rather drop the politically hot issue for this year.

Archer still wants a tax cut of $100 billion built around a temporary $500-per-child tax credit and a cut in capital-gains rates, but tax relief is a nonstarter in the Senate. Republicans may have a better shot at modest changes in the regulatory process and a bare-bones product liability bill. But much more than cosmetic changes there could be veto bait.

For now, Republicans' grand plans for shaking up Washington are on hold. The revolutionaries of 1995 have come to realize that, this year at least, a bit of middle-of-the-road reform is the best they can get.

By Howard Gleckman

CAPITAL WRAPUP

PRIMARY CALENDAR FLIP-FLOP

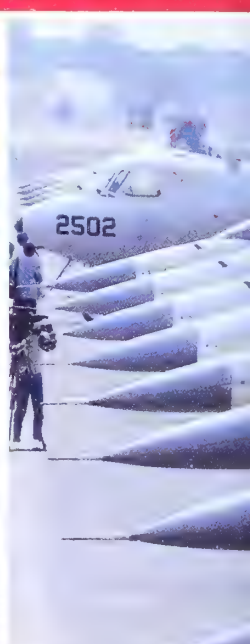
▶ After compressing the '96 primary schedule to speed the Presidential nomination process, both parties want to stretch out the vote in 2000. Why? With most primaries over before April, voters don't have time to learn about the candidates. Republican National Committee Chairman Haley Barbour says he and his Democratic counterpart, Senator Christopher J. Dodd (D-Conn.), agree to study reforms. One possibility: holding primaries in different regions monthly.

CYBERSCHOOL FOR CONGRESS

▶ Representative Rick White (R-Wash.), whose district includes Microsoft Corp. headquarters, is setting up a bipartisan Internet caucus on the Hill to shape future cyberspace legislation. He got the idea after Congress passed a telecom-reform bill on Feb. 1 with a provision calling for a crackdown on cyberporn. White believes the measure was enacted hastily by computer-illiterate lawmakers and could unintentionally crimp the growth of the online industry.

HILLARY'S "FRIEND"—AND FOE

▶ Senator Lauch Faircloth (R-N. C.) may try to block Washington lawyer Brooksley E. Born from chairing the Commodity Futures Trading Commission. He charges that Born, top White House pick for the post, is a friend of Hillary Rodham Clinton and might be cool to probes of her commodities trading, which netted $100,000 on a $1,000 investment. Born's backers say her only tie to Mrs. Clinton was in the 1980s, when both served on an American Bar Assn. panel.



CHINA

ESCALATING THE WAR OF NERVES

China's latest moves are intended to put maximum pressure on Taiwan–and business is paying the price

With their first democratic presidential elections slated for Mar. 23, most Taiwanese knew China would hold military maneuvers near Taiwan before the polls. Beijing has made no secret of its plans to discourage voters from casting a ballot for President Lee Teng-hui. Since his trip to the U.S. last June, Chinese leaders have vociferously accused Lee of abandoning the goal of reunification with China, instead pushing to make the prosperous island forever independent.

Even so, China's Mar. 5 announcement sent tremors through the 21 million residents of Taiwan. The reason: For an entire week, the People's Liberation Army will be launching surface-to-surface guided missiles that could land as near as 20 miles from Taiwan. "It's just so close," laments one Taipei resident.

The new exercises, backed up with land maneuvers by 150,000 troops, are Beijing's way of sending a message that it can bring Taiwan to its knees without firing a shot. For the week of the exercises, air traffic and shipping to and from Taiwan will be disrupted. The island's two major ports, Kaohsiung and Keelung, will be brought to near standstills as the tests impose an effective blockade on vital sea connections to the rest of the world. And Beijing is making it clear that it can take even more disruptive actions in the future. "China is waging economic war," says John W. Nelson, investment strategist at Jardine Fleming Taiwan Securities Ltd.

The response from Washington was decidedly low-key. The State Dept. summoned the Chinese ambassador to protest the moves. But reflecting the Administration's goal of keeping the temperature as low as possible, President Clinton was silent. So was Senate Majority Leader Bob Dole.

One reason for the caution is tha many seasoned China-watchers don' think Beijing wants to turn its eco nomic war into a real one. Instead they say China's latest moves are par of a script designed to put maximun pressure on Lee's government in the runup to the election. For instance, the Chinese want Lee to stop his campaign to win international recognition and ad mission to the U.N. and the World Trade Organization. It also wants Lee to lift the ban on direct shipping and air traffic between Taiwan and the mainland.

MISSILE DIPLOMACY. Even if Beijing doesn't want a shooting war, however many people are worrying about wha can happen once the missiles start fly ing. While Taiwan's Defense Ministry says the M-class missiles to be fired by China are accurate enough to avoid a mishap, Taiwanese Defense Minister Chiang Chung-ling warned that Taiwan's military would respond if China's mis siles violated the island's territorial wa ters. China has already demonstrated

"If a missile goes off line and lands in downtown Taipei, who knows what is going to happen next?" frets one Western diplomat

CHINESE TROOPS ON MANEUVERS LAST NOVEMBER AND TAIWANESE JETS AT THEIR BASE IN TAICHUNG

at its missile-related technology can go vry with disastrous results: A rocket unched in Sichuan province last month rrying a communications satellite exoded, killing six people. "If a missile oes off line and lands in downtown aipei, who knows what is going to hapen next?" frets a Beijing-based Westn diplomat.

The war talk is scarg Taiwan's business mmunity—both local d foreign. Heightened nsions are calling into uestion the close ecomic ties China and aiwan have forged nce the late 1980s. ome 20,000 Taiwanese ave invested over $25 llion in the mainland, hich now rivals the .S. as the largest maret for Taiwanese exorts. Moreover, the ilitary manuevers are npairing Taiwan's abily to conduct normal usiness activities. "If ou have instability or ven war, how can you business?" asks a worried Morris hang, chairman of $1 billion Taiwan emiconductor Manufacturing Co. "Our rvival is at stake."

The jitters also are taking a toll on nfidence among ordinary Taiwanese. any are delaying purchases of bigcket items like autos. After Beijing's nouncement of the latest tests, some Taiwanese started lining up at banks to convert their money into foreign currencies. Taiwan has suffered some $10 billion in capital flight since the military maneuvers first started eight months ago, much of it flowing into banks in California. "China is out to prove Western commentators wrong who say it doesn't have the ability to really hurt Taiwan," says the Western diplomat in Beijing.

PRESIDENT LEE: *Will Chinese threats win him votes?*

Because China believes its saber-rattling works, it's unlikely that the crisis will be defused until after the Taiwan elections. Beijing is convinced that maneuvers held last December before Taiwan's legislative elections helped cut support for Lee's ruling Kuomintang (KMT) and Taiwan's largest opposition party, the Democratic Progressive Party (DPP). Unlike the KMT, the DPP openly advocates outright independence from China. "One purpose of the military exercises is to see the DPP's influence fall," says Li Jiaquan, a research fellow at the Institute of Taiwan Studies at the Chinese Academy of Social Sciences in Beijing. "This will allow Taiwan to move closer to China."

Beijing also wants to hurt support for Lee, whom it has branded "sinner of the millennium" for pushing policies that it says are pro-independence. But Lee is hanging tough. He now paints himself as the sole candidate who can stand up to Beijing. That resonates with many Taiwanese voters, who think that the world should recognize their achievements in building a prosperous and democratic society. "If they keep up threats, [China] will help win votes for Lee Teng-hui," says H. H. Michael Hsiao, a fellow at Academia Sinica, a research center in Taipei.

COOLER HEADS. Despite fears among Taiwanese, some foreign analysts are hoping cooler heads will prevail. China has made it clear that it wants economic ties to continue growing. As it did before earlier military exercises, Beijing has put out the word that Taiwanese investments in China aren't to be harmed. Despite the fall in Taiwan stocks, which have dropped 17% since Lee's U. S. visit last summer, international banks aren't demanding a risk premium on Taiwan paper. "The sophisticated institutions know the score," notes William H. Overholt, managing director of Bankers Trust Co. in Hong Kong.

One key in the confrontation is what percentage of the votes Lee gets in the election. He desperately wants to gain a majority, in order to prove that he has a popular mandate for his policies. Less than 50% would send a different signal. No matter how large the win, a Lee victory would allow him to present himself as the first-ever Chinese leader to be chosen by the people in a democratic vote—a vivid contrast with Chinese Communists like President Jiang Zemin and Premier Li Peng.

After the election, Lee may make some conciliatory moves to Beijing, such as holding high-level talks to defuse tensions. Beijing will be watching closely. If China doesn't think Lee is doing enough, it could escalate the war of nerves even further—perhaps by launching longer-range missiles. While they await the outcome, residents in Taiwan can only hope this drama ends without tragedy.

By Joyce Barnathan and Margaret Dawson in Taipei, Mark Clifford in Hong Kong, Dexter Roberts in Beijing, and Stan Crock in Washington

JAPAN

THIS TRADE GAP AIN'T WHAT IT USED TO BE

U.S. exports to Japan are up–but pressure alone didn't do it

At electronics megastore Maruzen Musen in Tokyo's bustling Akihabara district, salesman Wataru Irifune is catching his breath. Customers have been grabbing Macintosh personal computers off the shelves left and right, thanks to a recent cash-back incentive scheme. "As soon as the stuff came in, boom, it was gone," says Irifune of the American-made Macs.

Brisk sales of PCs are just one sign of a U.S. export surge that's helping to narrow America's chronic merchandise trade deficit with Japan (chart). After four years of widening, the bilateral trade gap shrank nearly 10% last year, to $59 billion. The improvement came even as the U.S. global goods imbalance surged to a record $174 billion. And economists expect the U.S. deficit with Japan to fall further in 1996.

Clinton Administration officials have been quick to claim credit for the good news. But persistent trade pressure from Washington and reluctant market-opening moves by Tokyo only tell part of the story. A confluence of macroeconomic forces and structural shifts may be fundamentally altering the bilateral trade relationship.

YEN FACTOR. For starters, slowing U.S. economic growth and the dollar's 16% decline against the yen over the past three years have dampened America's appetite for Japanese goods. Meanwhile, the weaker dollar, coupled with Corporate America's downsizing, is making U.S. goods more competitive, just as Japan's economy is perking up. The result: U.S. exports to Japan in 1995 jumped 20%, to $64.3 billion—five times the pace of imports from Japan. U.S.-made cars, semiconductors, office machinery, and medical equipment all posted double-digit gains.

But the diminution in the bilateral trade gap is also a bit of a mirage. Pressured by the soaring yen and U.S. trade friction, Japanese manufacturers are moving more production offshore to countries such as China and Thailand. As a result, "part of the trade deficit is being redistributed from Japan to other Asian countries," says Brian R. Horrigan, senior economist at Boston-based Loomis, Sayles & Co.

Just how much isn't clear. But since 1991, America's trade gap with China and Southeast Asia combined has swelled from $32.3 billion to $59.3 billion last year. At least some of the imports are from Japanese-owned plants manufacturing color televisions in Malaysia, for example. Says one U.S. executive in Japan: "Japanese products are still coming, but from a different direction."

MACS OFF THE RACKS: *Cash-back incentives have boosted sales of the PCs*

SLIMMING JAPAN'S TRADE SURPLUS WITH THE U.S.

DATA: U.S. COMMERCE DEPT.; BUSINESS WEEK ESTIMATE

Similarly, the U.S. export boom has been triggered in part by the expansion of Japanese-owned production in the U.S. While Administration officials lauded a 53% jump in auto exports to Japan in 1995, to $3.2 billion, virtually all of the vehicles were made at U.S. factories owned by Toyota, Honda, and Mitsubishi. Big Three exports to Japan from the U.S. were mostly flat last year. Only now are carmakers ramping up major exports of right-hand drive models to Japan.

To be sure, some improvements are due to jawboning by Washington. A 1994 U.S.-Japan accord to ease curbs on foreign medical equipment has helped Varian Associates, a Palo Alto medical device maker, double its sales in Japan, to $100 million, since 1993. The President's Council of Economic Advisers also found that in sectors that were the focus of trade talks in 1993 and 1994, such as telecommunications, exports to Japan climbed more than 50%—twice as fast as other U.S. exports.

Modest market-opening moves by Tokyo are helping, too. Loosening of curbs on agricultural imports has made supplies of California broccoli and other produce more plentiful, for example. "The Japanese market is a lot more open today than it was in 1970 or 1980 or even 1990," says former U.S. trade negotiator Clyde V. Prestowitz Jr. of the Economic Strategy Institute.

Still, government policy affects trade only at the margins, most economists believe. Business cycles, exchange rates and investment flows largely determine the trade balance. On that score, the outlook is for continuing improvement—albeit modest. The slowing U.S. economy will dampen imports, while Japan's recovery should suck in more U.S. exports. More Japanese production offshore will narrow the gap—but at the price of higher U.S. deficits elsewhere.

Given economic fundamentals—and the web of invisible barriers to foreign goods that remain in Japan—the bilateral trade gap won't shrink dramatically. But after years of swelling deficits and puny U.S. export numbers, even modest progress looks mighty good to Washington.

By Amy Borrus in Washington, with Edith Hill Updike in Tokyo and Keith Naughton in Geneva

BUILDING AN AIRBUS: *In the works is a double-decker jet seating 800 economy passengers*

UROPE

A STRONGER TAILWIND FOR AIRBUS?

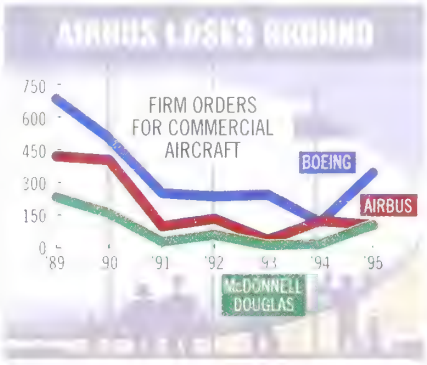
s a private company, it could put more pressure on Boeing

n a bubbly moment he undoubtedly regrets, Jean Pierson, the feisty managing director of Airbus Industrie, edicted a year ago that in 1995 his uropean plane consortium might again itsell Boeing—as it narrowly did in 994. That could have won Airbus its nerished goal: selling 50% of the orld's big jets. Instead, Airbus' market hare fell by more than half, to an nbarrassing 18.9%, bumping the higher from first place to third.

Airbus brass gamely call the plunge blip. Yet a gnawing fear is spreading the consortium that its rejuvenated . S. rivals—Boeing Co. and McDonnell ouglas Corp.—could push Airbus peranently off course. As a result, the ng-discussed conversion of Airbus om a pork-barrel alliance into a prof-oriented manufacturing company is inning the backing of its four parters: British Aerospace, Daimler Benz erospace, France's Aerospatiale, and pain's CASA. A committee report on a ew structure is due in June, to be folwed by negotiations among the partrs. If the makeover comes off, it ould help Airbus crack Boeing's onopoly in the jumbo-jet market, the dustry's most lucrative segment.

Airbus hopes its new design, the 3XX, will do the trick. The doubleecker would haul 550 riders in three classes, or up to 800 in all-economy. Development would start in 1998, with the plane entering service by 2003. Its main rival: a stretched 747 with 500 to 600 seats that Boeing is expected to begin developing later this year.

A successful jumbo may be critical to Airbus' survival. Boeing uses its fat profits on the 747 to "subsidize" low-priced package deals of several models, says John J. Leahy, Airbus marketing vice-president. Industry sources say that tactic helped Boeing win a $4 billion order in January from Malaysia Airlines for 747s and 777s. And Airbus thinks jumbos are the growth vehicle of the future. Planes above 500 seats will account for 25% of industry revenues over the next 20 years, Leahy believes. This segment doesn't exist now: The biggest 747 hauls some 480 riders.



To get the new plane soaring, the Europeans need cash—some $10 billion—and low-cost production. Airbus lacks both. A marketing co-op, Airbus sells planes its partners build from their own components—with no outside competition. In the likely new arrangement, the partners would trade assets they use in Airbus work for shares in an independent Airbus. The new company would seek low-cost subcontractors in Asia and the U. S. And it could raise equity capital. Government loans now are limited by international agreement to 30% of development costs.

"All the partners are agreed to create a single [independent] entity" at Airbus, says Manfred Bischoff, CEO of Daimler Benz Aerospace. British Aerospace has pushed the idea to its skeptical partners for a decade. Now the key holdout, France's Aerospatiale, is coming around. Chairman Louis Gallois thinks a change in Airbus' structure is essential to build efficiency. British sources say recent merger talks between Boeing and McDonnell Douglas—although they failed—also scared the partners into agreement.

MIXED NEWS. Efficiency didn't matter so much for Airbus in the past, when competition was less intense and it had more government aid. But as Airbus' market share grew, Boeing began to slash production costs. That has let it become the industry's most aggressive marketer, a role once played by Airbus. Even though Boeing has undercut Airbus' prices, the U. S. company's profit margins are at least triple those of Airbus, figures analyst Nicholas P. Heymann at NatWest Securities Corp. No one really knows—not even Airbus—because cost numbers are buried in its partners' private accounts.

A sleeker Airbus would be mixed news for U. S. rivals. Boeing has sought for years to force financial disclosure on Airbus to make sure competition is fair. But, "if Airbus operates more efficiently, that's negative for us," says Ray Waldmann, Boeing's international vice-president. Airbus executives think their makeover will put pressure back on Boeing. And they still expect to win 50% of the market. Sobered last year, however, their forecast now is less optimistic: soon after the year 2000.

By Stewart Toy in Paris, with Paula Dwyer in London, John Templeman in Bonn, and Seanna Browder in Seattle

EUROPE

KOREA'S BIG LEAP INTO EUROPE

The *chaebol* are poised to pour in billions

His friends call him "King Kong." And O. S. Kong, a 46-year-old South Korean executive, is certainly living up to that chest-thumping nickname. As president of Western European operations for Korea's LG Electronics, Kong hopes to spend upwards of $1.5 billion to build a semiconductor and consumer-electronics factory in Britain.

WARM WELCOME

Queen Elizabeth and Samsung Chairman Lee officially open an electronics plant in Wynyard

That's a big leap from LG's modest array of European assembly plants for TVs, VCRs, and refrigerators. But LG, like Korea's other *chaebol*, has decided this is the moment for dramatic expansion in Europe, especially in sophisticated products such as cars and custom chips. For many reasons—rising wages back home, saturated markets in the U. S., and a desire to go global—Korean giants are spending billions in Europe. Fierce protests are certain from such companies as Peugeot that have already suffered from a Japanese incursion. Yet the hugely ambitious Koreans won't stop until they have grabbed big chunks of Europe's markets.

HEAVY SHOPPING. These plans call for spending far more than the $2 billion the Koreans have plowed into Europe over the last decade or so. Last fall, Queen Elizabeth II and Samsung Chairman Lee Kun-Hee inaugurated a $700 million plant for microwave ovens and personal-computer monitors. Now, Samsung may bid for troubled Dutch aerospace group Fokker. Daewoo Corp. has bought several Eastern European car plants and plans to spend $3 billion upgrading them. It's also trying to buy Britain's Lotus Cars Ltd. from luxury carmaker Bugatti International. Hyundai Corp. is considering a $1.3 billion chip plant in Europe and is scouting Romania for a car-assembly site.

European governments welcome the Koreans. They know that Japanese auto makers helped revive British manufacturing by placing big orders with the country's motor suppliers. Prodded by last year's Asia-Pacific Economic Cooperation agreement on free trade, European and Asian leaders gathered for a Mar. 1-2 summit in Bangkok to boost economic and political connections.

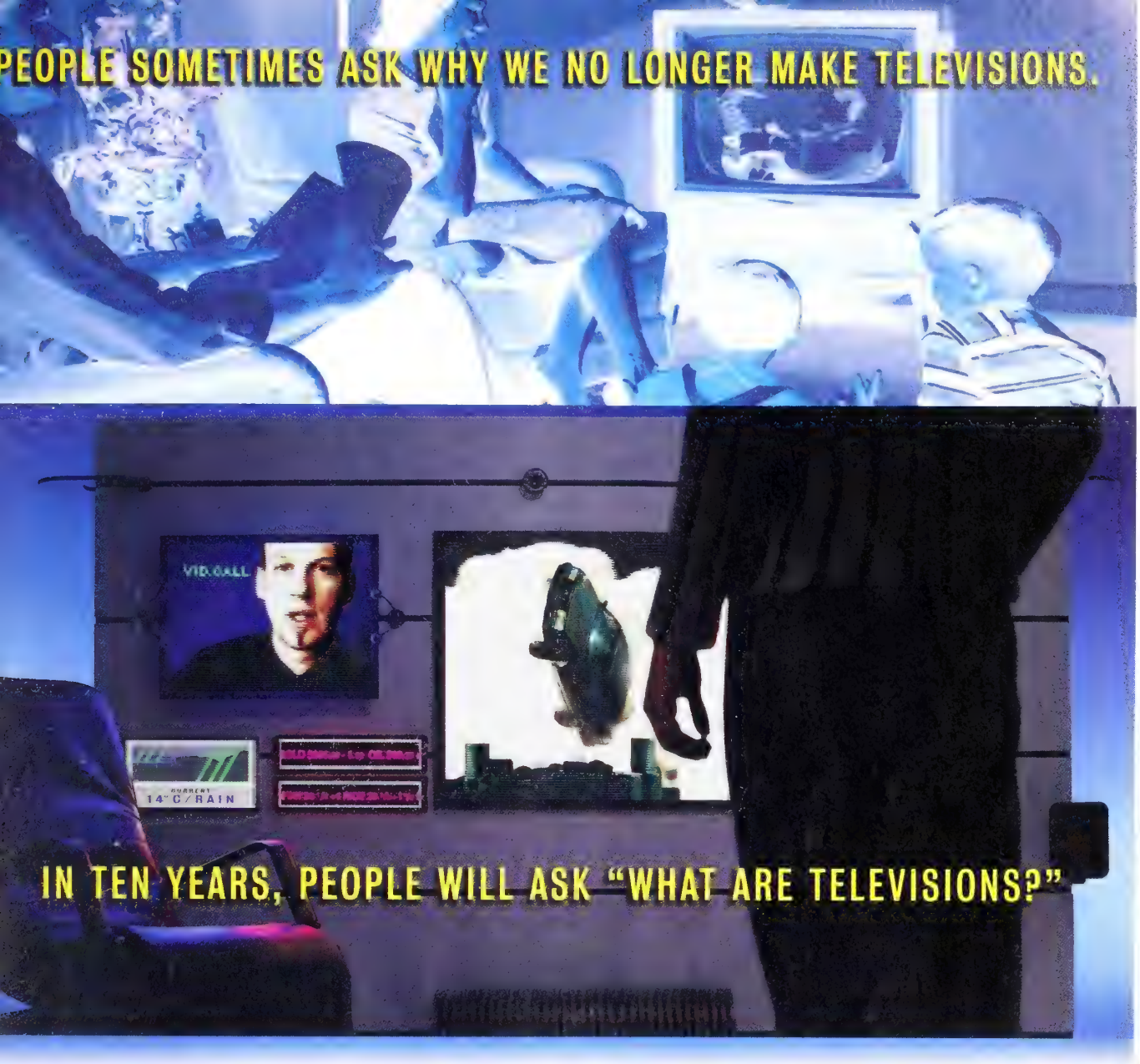
Until recently, Koreans poured most of their money into faster-growing Asia and the U. S. But while Korea's investment in Europe was just 3.4% of its world total five years ago, it's now 19.4%. "Suddenly, Korea realized that the only other market that could absorb its expensive products was Western Europe," explains Chong Ju Choi, a professor at London's City University Business School, who advised Hyundai on its European strategy. The *chaebol* also sometimes find it cheaper to produce in Europe than to ship goods from home. "In certain parts of northern England, labor costs are lower than they are in Korea," says LG's Kong.

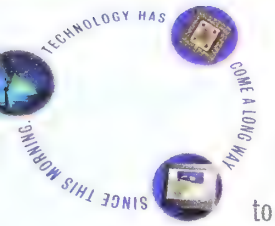
HIGHER RUNG. But Koreans are also looking to Europe for a step up the technology ladder. Samsung might use Fokker's planemaking technology to support its global plans in aerospace. Daewoo's interest in Lotus may lie more in the company's engineering consultancy than in its sports-car division. Korean companies are also looking to Europe for technology that will help them offer more sophisticated products globally. On Mar. 5, Samsung announced it would license technology from SGS-Thomson Microelectronics Inc. to develop 32-bit microprocessors for use in such products as multimedia personal computers and cellular phones. By putting the microprocessors in its products, Samsung could help the Franco-Italian chipmaker establish its 32-bit technology as the industry standard.

Most European carmakers, however, fear the Koreans. Last spring Daewoo began selling cars in Europe, rolling out its $14,000 Nexia, which competes with Volkswagen's Polo and Opel's Corsa, and its $18,000 Espero, which competes with VW's Golf. In nine months, Daewoo sold nearly 60,000. By 2000, it's aiming for 300,000 a year. As Daewoo lacks a strong dealer network and offers outmoded technology, rivals doubt it will succeed. But even a flawed Korean effort could force prices lower. That's why European carmakers, who sell few cars in Korea, are calling for quotas on Korean imports. "The Koreans have locked everyone out," insists Louis R. Hughes, president of General Motors Europe.

Whether the newly inked accord between the EU and Korea will change this imbalance is uncertain. But as the *chaebol* continues its drive to internationalize operations, Europeans will have to learn to compete and cooperate with these dynamic Asians.

By Julia Flynn with Heidi Dawley in London, David Woodruff in Geneva, Gail Edmondson in Paris, and bureau reports





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EDITED BY STANLEY REED

THE MIDEAST: PEACE MAY MEAN ECONOMIC SEPARATION

Were the prospects of Arab-Israeli peace too good to be true? Just weeks ago, Israeli Prime Minister Shimon Peres' peace program looked to be winning the hearts and minds of war-weary Israelis. Yassir Arafat, fresh from victory in the December Palestinian election, was consolidating his power while Israelis and Syrians were finally sitting down near Washington to talk seriously about a peace agreement. And multinationals began flocking to the area, scenting a mounting peace dividend: Last month, for example, Citibank opened its first regional office in Tel Aviv in a bid to cash in on the expected peace boom and multibillion-dollar wave of internationally financed projects for the Palestinian areas.

The suicide bombs that ripped through Jerusalem and Tel Aviv with such murderous fury in late February and early March seem to have shattered that rosy vision. Peres looked like a shoo-in in the May elections; now, the stunned Israeli public could well throw him out. Declaring war on Islamic militants, the embattled leader has moved quickly to seal off the Palestinian territories. But this, too, could have dire consequences. "We are now threatened with the collapse of the entire peace process," says Nabil Shaath, the Palestinian Planning Minister.

OUTRAGE: *Protesting terrorism in Jerusalem*

HIGH FENCES. But what is collapsing is not necessarily the peace process itself, but Peres' vision of what peace would look like. In place of his program of increasingly knitting Palestinian areas into a common market, Israel is veering toward total separation of Israelis and Palestinians. On Mar. 3, after a suicide bomber on a Jerusalem bus killed 19 people, Israel rushed approval of a $100 million budget to build cold-war-style high-security fences around Palestinian areas. The U.S. is planning to supply high-tech bomb-detection equipment.

Israel was already moving toward separation. The numbers of Palestinians employed in Israel has dropped from 170,00 two years ago to barely 20,000 today as the Israelis try to re duce potential terrorists in their midst. Cheap labor at boom ing Israeli construction sites today comes from Poland, Thai land, the Philippines, and even China. The death of fou Romanian construction workers in the Mar. 3 Jerusalem blas underscores this reorientation of the economy. The Israeli gov ernment is expected to give the green light for an additiona 30,000 foreign workers.

But the risk is that these moves will worse the grim economic conditions in which Hama thrives. More than 60% of the gross domesti product in areas under Arafat's control is con nected to trade with Israel or comes fror earnings of Palestinian workers in the Jewis state. Separation, says Israeli consultant Gi Feiler, "could lead to even worse terrorism be cause there will be no safety valve"—mean ing the option to work in Israel.

There could be some pluses in separatio for the Palestinians over the long run. It coul force greater self-sufficiency and even lea more rapidly to the formation of a Palestinia state. If Israel is set on separation, for in stance, then Jerusalem will have to stop op posing independent port facilities and airport in Palestinian areas.

But first, the Palestinians will have to pu their house in order. If Arafat and public pres sure can't stop terrorism, Arafat's fledgling Palestinian enti ty is going to be a failure, with a moribund economy—and th Israelis reasserting control instead of granting more autono my. Already, several top-level international aid missions hav been canceled, although no one is yet talking about cutting of funds. Peace may still come to the Middle East, but it ha suffered a huge setback.

By John Rossant in Rome and Neal Sandler in Jerusalen

GLOBAL WRAPUP

NEW REIGN IN SPAIN

▶ In a slim Mar. 3 victory, Spain's conservatives ended 13 years of Socialist rule. Leader José María Aznar of the Partido Popular aims to speed privatization, loosen labor laws, and slash budget deficits so Spain can enter European monetary union. He vows to cut taxes, gradually lowering the personal income tax rate from 56% to 40%. However, having failed to win a parliamentary majority, Aznar must forge an alliance with Catalan regionalists from the Barcelona area. They buy his free-market ideas but resent his opposition to regional autonomy. Chances are they'll deal. If not, Spain could face new elections.

BREAKTHROUGH IN TURKEY

▶ Turkey's five-month-old political crisis came to a sudden halt on Mar. 3 when two center-right parties joined forces to keep an anti-Western, Islamic party out of power. Under the coalition deal, the first of its kind in Turkey, True Path Party leader Tansu Çiller and Motherland Party leader Mesut Yilmaz will take turns as Prime Minister, with Yilmaz taking the helm first, followed by Çiller in 1997. The arrangement cuts out the Islamic Refah Party, which took the most seats in the December election.

CONTINENTAL DRIFT?

▶ John Howard, the newly elected Conservative Prime Minister of Australia, could threaten the Asian ties that were carefully nurtured by his defeated opponent, Paul J. Keating. Howard pledges to rebuild ties with Australia's old friends in America and Europe.

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*SEC standardized returns assume you sold your shares at the end of each reporting period. A sales charge, which applies only if the shares were sold within six years of their purchase, is reflected in these returns.

The health sciences industry has special risks, including changes in government regulation, which will affect the fund's performance and net asset value. The foreign securities and markets in which the fund invests pose different and possibly greater risks than those associated with domestic securities, including currency fluctuations and political instability.

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MEDICINE

THE TRIALS OF A HOME HIV TEST

After 10 years, J&J's controversial kit may hit the market

In 1985, Elliot J. Millenson, 30 years old and flush with cash after some successful telecommunications deals, was looking for a new venture. The idea he settled on seemed simple enough, and he thought it would advance public health: a home-based test kit for HIV.

Perhaps Millenson was just ahead of his time. As the first home test for a fatal disease, the idea was immediately controversial. AIDS activists opposed it. So did the American Medical Assn. Stonewalled by the Food & Drug Administration in his fight to get the test approved, a beleaguered Millenson eventually sold his company to Johnson & Johnson.

The controversy didn't end there. J&J's aggressive promotion of the test before its approval led to an FDA investigation. The test even got tangled up in the congressional inquiry of House Speaker Newt Gingrich's finances.

REVERSAL OF FORTUNE. Now, nearly a decade after the original test was submitted to the FDA, approval seems near—perhaps within three months. If approved, the test would be sold without prescription for under $50 in stores. Called Confide, users send a blood sample from a finger prick off to a lab. A week later, using a computer code, they can get results and counseling over the phone. Two other companies—Home Access Health Corp. in Hoffman Estates, Ill., and ChemTrak Inc. in Sunnyvale, Calif.—have submitted similar products for FDA approval. SmithKline Beecham expects to submit a home version of its oral HIV test to the FDA in a year or so.

This reversal of fortune for home HIV tests is the result of two factors. One is deep-pocketed lobbying by J&J. The other is dissatisfaction with the status quo in HIV testing and a belief that home tests will widen access to new advances in early treatment. Wider testing is critical in stemming the rate of HIV infection that continues to rise among women, minorities, and adolescents. "It's really important for people at risk to find out their status" says Jeff Stryker, a researcher at the Center for AIDS Prevention Studies at the University of California San Francisco. "There's more and more you can do."

When Millenson first submitted his company's test for FDA approval in late December, 1987, the epidemic was just a few years old. Efforts were focused on providing comprehensive, clinic-based HIV testing. Concerned about the lack of face-to-face counseling and the accuracy of home testing, the agency refused in March, 1988, to review any tests not used in a professional setting.

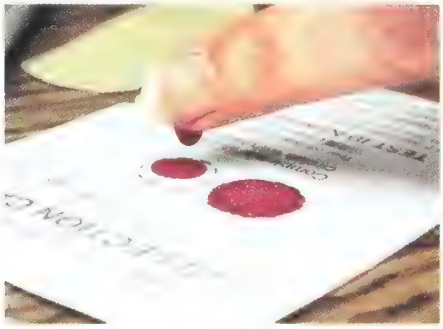
Millenson wasn't deterred. Between 1987 and 1991 he badgered the FDA to review his application. Eventually he filed a complaint in U.S. District Court that resulted in a settlement, and the FDA agreed to review the test. In August, 1990, an FDA advisory committee voted not to approve the product, reiterating their opposition to home tests. Millenson took his message to the media, even requesting FDA approval for television host Larry King to take the test on his show.

EXTRAVAGANZA. Those efforts didn't lead to FDA approval, but in 1993 they did interest J&J. When J&J bought Millenson's test, the product gained an advocate with deep pockets and huge political clout. Millenson was put in charge of Direct Access Diagnostics, and the home HIV test—now called Confide—was redesigned. Former Surgeon General C. Everett Koop was hired to write the educational literature to accompany the test. J&J began a public relations extravaganza. They lobbied members of Congress, met with gay activists, and worked to repeal laws in Florida and Texas that require face-to-face counseling for HIV tests.

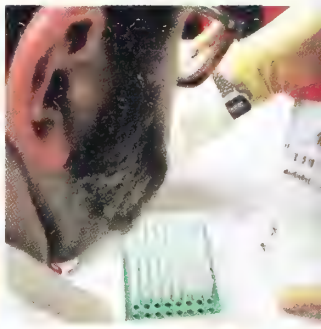
AIDS activist Bruce Decker, now deceased, was hired to visit clinics and gay organizations to promote Confide, says Christopher J. Portelli, executive director of the National Lesbian & Gay Health Assn. They were offered a cut of the profits if they agreed to support the test, says Portelli, who opposes home testing because he's concerned about the psychological trauma of finding out HIV status over the phone. "When you pour millions and millions of dollars directly into a small activist group, you get results," he says.

The campaign worked quite well—especially when coupled with stark evi-

How J&J's Test Would Work



1 Blood is collected from finger and sent off to lab.



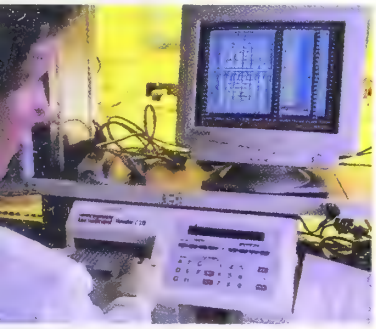
2 Lab uses two kinds of tests to confirm HIV status.

Dealing with psychological trauma looms as a large problem—particularly liability for suicides

ence that current testing procedures ere failing. In a study released by the enters for Disease Control in February, 94, only 18% of adults said they had een tested for the AIDS virus. Despite e goal of face-to-face counseling, some % of those tested got their results by hone or mail. The study also found that % of people at risk for AIDS—many them minorities—indicated they would e a home test. Some saw opposition to me testing as paternalistic: "To me s like telling women not to do a breast lf-exam," says Dr. Deborah Cotton, an DS specialist at Massachusetts General ospital. "They may get suicidal."

In June of 1994, an FDA advisory comittee conducted a marathon 17-hour eeting in which dozens of doctors, AIDS tivists, and public health officials spoke support of the home test. Some said eir airfare and some travel expenses d been paid by J&J.

Alarmed by this support, the test's ponents responded. Portelli's group—hich represents some 11 clinics that HIV testing—asked the FDA to inves-



ults are logged in to a computer. ple get results from a counselor eying in a code over the phone.

gate whether J&J's payment of some rticipant's expenses constituted a pay-. They also charged that J&J improper-promoted a nonapproved product by owing Koop to display Confide on the *day Show*. The investigation ended th no finding of wrongdoing, but it used a public-relations headache for e company. "They should have been proved a year ago," says Paul Kawata, ecutive director of the National Minor-AIDS Council, "but Millenson ruffled me feathers."

J&J's lobbying went further. In Aust, 1994, Millenson met with Reprentative Newt Gingrich and told him out problems getting Confide apoved. No fan of the FDA, Gingrich fired f a letter to White House Chief of aff Leon E. Panetta saying that the A should "approve the home test withit any qualifications." It turned out at J&J had contributed some $30,000 to ngrich's Progress & Freedom Founda-

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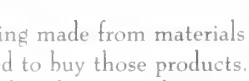

tion. This incident became part of the investigation into Gingrich's use of the foundation's funds. A congressional committee later found no evidence of any "improper linkage" between his actions and the contributions.

In February, 1995, the FDA officially revised its guidelines to allow review of home HIV tests. That same month, Millenson was fired for reasons neither he nor J&J will discuss. In fact, J&J has stopped talking about Confide at all. The two other companies—ChemTrak and Home Access—have quietly submitted their products for approval and begun staffing their 24-hour phone lines.

It's a business with no real model and thus some sticky questions to confront. If counselors don't know the identity of the caller, for example, will that protect the company from liability in the event of a suicide? And what if there's a lab mistake and the company can't track down callers to correct it?

"WORRIED WELL." Peter Barton Hutt, a former FDA counsel and partner at the Washington firm Covington & Burling, says "you could make a list of a hundred things" to worry about. Most issues can be handled with educational materials and a label indicating that the test is for screening only—a user should seek a doctor's confirmation. On the suicide issue, studies show that incidence rises late in the disease, not at diagnosis. In any case, Hutt says liability costs are "built into the price of the product."

The companies hoping to sell these tests don't seem concerned. CDC studies project that 30 million Americans might buy a home HIV test. The initial target group is young women who are sexually active and have experience with home pregnancy tests. Because the test is as accurate as one doctors might do, Alene A. Holzman, vice-president at ChemTrak, envisions new couples taking it together before consummating their relationship. ChemTrak has dubbed the idea "relationship wellness testing."

This marketing to the "worried well" has some critics feeling that the test won't address true public health needs. "This program is all about money," says Jim Graham, executive director of the Whitman Walker Clinic in Washington. But as many doctors and AIDS activists know, millions of those at risk simply won't get tested any other way. "We in AIDS, with all best intentions, have created many barriers to testing," says Cotton. The home HIV tests could clear the way for more people to seek help for a terrible disease.

By Naomi Freundlich in New York, with Joan O'C. Hamilton in San Francisco

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RESEARCH & DEVELOPMENT

ARTIFICIAL IMAGINATION

Companies are trying out software designed to spur invention

Michael K. Waldman had plenty of time to think about how to build a better pizza box. When he immigrated to Philadelphia in 1990 at age 36, the Russian engineer paid the rent by delivering pizza. The cardboard boxes embodied a classic engineering contradiction. Vents kept the pizzas from getting soggy, but they also allowed the heat to escape. The result: cold pizza.

Waldman posed the problem to Invention Machine Lab, a program he and other Russian engineers devised to inspire and speed invention. With its help, he came up with the idea of adding round bumps to the bottom of the box. That kept the pizza high and dry. The boxes can be closed, keeping the heat in. The company says major pizza chains—which it can't name—are interested.

Invention Machine Lab is a leading example of creativity software, a class of programs aimed at raising the I. Q. of research and development in a time of competition, brutally short product and constant cost-cutting. Customers of instant creativity include Ford Motor, AlliedSignal, Procter & Gamble, and Digital Equipment. On Feb. 12, Motorola Inc. gave a boost to Cambridge (Mass.)-based Invention Machine Corp. with a $2 million order for 1,000 copies of its program and the training to use it.

Invention Machine Lab forces engineers to confront the contradiction between objectives that's at the heart of every design problem. To help resolve the contradictions, it draws on 95 "inventive principles" derived from nearly 2.5 million patents—such as "spheroidality," "color changes," or "segmentation." It also steers inventors toward effects drawn from physics, chemistry, and geometry that may be useful, and it suggests how the invention could evolve (table).

Skepticism remains. "The process behind most good inventions is so bizarre," says John Preston, former technology licensing officer for Massachusetts Institute of Technology. "It's hard to envision a software package that stimulates radical innovation—although incremental advances might be possible."

BRAINSTORMING A BETTER VACUUM CLEANER

Invention Machine Corp.'s software helps engineers invent. Here's how a team led by Michael Waldman used it to dream up a vacuum cleaner that sucks powerfully but is easy to push.

1. In the software's **Principles** module, Waldman posed a contradiction between "intensity" and "use of energy." The software suggested using "pulsation." With that prompting, Waldman thought of cycling the suction on and off rapidly so the vacuum could be pushed during the lulls.

2. The brainstorming **Effect** module suggested various ways to get rid of something—in this case, dust. One method, using ultrasound, seemed useful for making dust vibrate off of carpets.

3. Drawing on knowledge of how inventions mature, the **Prediction** module guided Waldman toward possible improvements. Meanwhile, he built a prototype that requires 60% less pushing force. The next generation may incorporate ultrasound.

DATA: INVENTION MACHINE CORP.

Still, early customers swear by it. "Having this software is like having your own personal brainstorm power," says Michael Vaynshteyn, a senior project engineer at Xerox Corp. While at Eastman Kodak Co., he used it to come up with a patented mechanical device that raises a pocket camera's flash far enough from the lens to avoid "red eye." The software pointed him, oddly enough, to a system that keeps floating logs aligned. "What caught my eye were some wires that held the logs together," he says. That led him to a spring-loaded system of disks that raises and lowers the flash.

CHIEF BATTLE. Creativity software isn't all focused on product development. A program from Idea Fisher Systems Inc. of Irvine, Calif., works off word associations. Mind Link, from Cambridge-based creativity consultancy Synectics Inc., throws unexpected scenarios at users. Creativity Machine uses "neural network" software developed by former McDonnell Douglas Corp. engineer Steve Thaler in St. Louis to generate everything from music to ideas for superhard materials.

In product-development software, the chief battle is between Invention Machine, where Waldman is vice-president of engineering services, and Ideation International Inc., based in Santa Monica, Calif. Both claim as their intellectual progenitor the Russian scientist and science-fiction author Genrich Altschuller. Now 69 and living in St. Petersburg, Altschuller was sent to the gulag after writing to Stalin on how to systematize Soviet innovation. His problem-solving theory was built on principles embodied in important patents.

Invention Machine's supporters say Valery M. Tsourikov, the company's chairman, CEO, and chief scientist, expanded the base of patents the program draws upon and came up with a friendlier interface. Tsourikov dismisses Ideation's Innovation Workbench as "a reference book, not a problem-solving program." Counters Ben Saltsman, an Ideation project manager: "I can make exactly the same comment about their software." Ideation says it has sold programs to Ford, Pratt & Whitney, and Emerson Electric.

The bickering over Altschuller's legacy is a bit pointless, because any creativity software that produces genuine breakthroughs is bound to find receptive customers. Hot pizza, anyone?

By Paul C. Judge in Cambridge, Mass.

BusinessWeek

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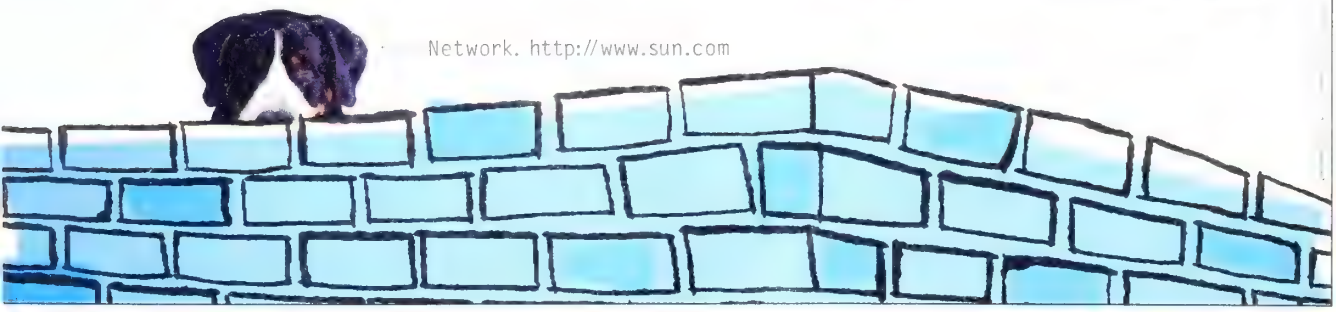

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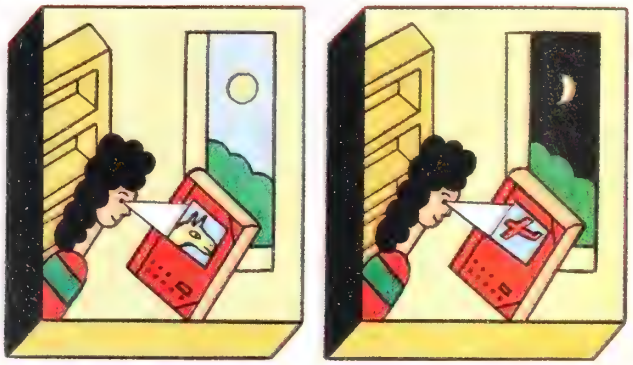
EDITED BY NEIL GROSS

THE ONLY BOOK YOU'LL EVER NEED?

MASSACHUSETTS INSTITUTE OF Technology researchers are developing an electronic book that looks and feels like an ordinary hardcover. Joseph Jacobson, the physicist heading the project, says the key is "digital" ink particles, 50 microns in diameter, which resemble the toner in laser printers and adhere to a paper-like synthetic substrate. The particles—black on one side, white on the other—flip over when stimulated by an electric charge, just as tiny crystals change position to block or release light in liquid-crystal displays.

The penlight-battery-powered invention will be able to download text from databases on the Internet. Once the data is in the book's memory, the reader will be able to display pages of, say, *War and Peace*, simply by pressing a button on the book's spine. When one book is finished, a new one can be downloaded and displayed in its place. After five months



of development work, Jacobson's five-person team has been able to flip pixels but not form complete letters. A proof of concept prototype is expected next year. The cost of the materials to build one book? About $400.

SQUEEZING CRYSTALS FROM GASES

CRUNCHING MOLECULES TOgether can bring big scientific surprises—and useful new materials. A few years ago, for example, a team of scientists at the Carnegie Institution of Washington used a diamond anvil to squeeze a mixture of helium and nitrogen. Normally, helium won't combine chemically with anything. To the researchers' surprise, the experiment created a solid chunk of a new helium-nitrogen compound.

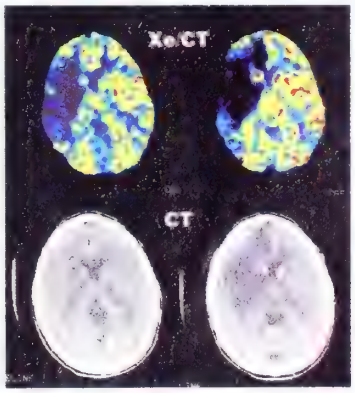
Now the team has scored another materials coup. The researchers squeezed together hydrogen and methane, expecting to make another new kind of solid substance. Instead, they found no fewer than four new materials, each with a different ratio of hydrogen to methane. Though the materials survive only under presure, "they tell us something about structural chemistry," says staff scientist Russell J. Hemley. They may also exist on giant, gaseous planets such as Jupiter and could offer clues to planetary formation. The materials may have practical benefits on earth, too—such as the ability to store hydrogen, a key step in making it viable as a fuel for cars.

PENTIUM-SPEED HELP FOR STROKES

OFFICES AREN'T THE ONLY places where Intel Corp.'s high-speed Pentium chips are sparking a revolution. Dr. Howard Yonas, chief of cerebral vascular surgery at the University of Pittsburgh, says microprocessors and high-speed computer networks have dramatically expanded physicians' ability to monitor blood flow in the brains of stroke victims, using a scanning technology called xenon-enhanced CT (Xe/CT).

Since 1974, doctors have been enhancing CT scans of patients' brains by having them inhale xenon gas, which acts as a contrast agent. Until recently, the procedure called for relatively high doses of xenon, which can cause temporary mental blurring and other side effects. Interpreting the data from the scan required hours of processing time on a minicomputer.

Working with colleagues at Pittsburgh's mathematics department, Yonas developed analytical software that runs on a Pentium personal computer linked to the CT scanner via a fast network. The software reduces the amount of xenon each patient must receive, speeds the analysis, and provides a higher-resolution image. Pittsburgh licensed the software to Diversified Diagnostic Products in Houston, which designed a low-cost system. The company has installed 15 units in U.S. hospitals, and five in Europe. The best part: Results from the test are in the physician's hands within 10 minutes after the exam. At an early stage of the stroke, says Yonas, "the doctor knows whether it is possible to intervene with clot-busting drugs."



INNOVATIONS

■ Soon a T-shirt may keep you warm outdoors and cool indoors. By treating cotton with polyethylene glycol, a polymer used to coat pills, scientists at the Agriculture Dept.'s Southern Regional Research Center in New Orleans have created a "smart" fabric that absorbs energy when you're relaxing by the fire and releases it when you go outside.

■ Motorola Inc.'s Lexicus Div. may have solved the problem of baffling scribbles on a doctor's prescription. It has designed a neural network that can learn virtually any doctor's scrawl. The software can also translate the prescription into electronic text and zip it by modem to a pharmacy or update a list of prescribed drugs in a patient's computerized medical records.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwmar@businessweek.com

SKIING

THE CLUB MED OF THE SKI SLOPES?

How Intrawest aims to become a brand-name winter resort

BEYOND BLACKCOMB: *Can this success story be repeated across North America?*

For the ski biz, the 1990s have been about as flat as a snowboard. But that hasn't slowed the run at Intrawest Corp.'s Blackcomb Mountain, some 90 minutes north of Vancouver. This season, Blackcomb—ranked along with the adjacent Whistler as No. 1 in North America by *Ski Magazine*—expects to log 1 million skier visits, three times as many as 1986, when Intrawest took over. During the same period, Blackcomb's revenues have soared eightfold, to $42 million.

Convinced that it has a formula for turning snow into gold, Intrawest is out to replicate Blackcomb's success. Since November, it has gobbled up West Virginia's Snowshoe and 33% of California's Mammoth Mountain. Its network of six resorts stretches from Quebec's Laurentians to the Sierra Nevadas. Soon, it aims to add a big Western resort—Ralcorp's Keystone and Breckenridge may be targets—to help boost its empire to 5 million skier visits a year, up from some 2.8 million now. That would make Intrawest North America's largest ski resort operator. More important, says CEO Joe Houssian, it would provide the "critical mass" needed to establish Intrawest as the leading brand name in skiing, with the kind of cachet Walt Disney Co. has in theme parks and Club Med has in beach resorts.

Intrawest isn't the only company that sees fat opportunities in the mature ski industry. With costs soaring, "there's a growing recognition the industry needs to consolidate" to prosper, says Leslie B. Otten, president of LBO Enterprises, which owns Maine's Sunday River. On Feb. 13, Otten struck a deal to buy Vermont's S-K-I Ltd., which owns Killington and three other New England resorts, for an estimated $107 million. The merged entity—American Skiing Co.—will be top dog for now, with a total of seven resorts and 3.5 million skier visits.

But no one "has a more aggressive vision" than Intrawest, says Michael Berry, president of the National Ski Areas Assn. Intrawest's North American strategy could give it a big edge in luring the most desirable skiers: those who vacation at "destination" resorts such as Blackcomb. That resort now hires Japanese- and Chinese-speaking ski instructors to cater to the 31% of its destination skiers who come from beyond North America. On average, "destination skiers spend four times as much" as day-trippers on items other than lift tickets and lodging, figures Intrawest CFO Daniel O. Jarvis.

AWESOME POTENTIAL. For all its savvy, Intrawest is a relative newcomer to skiing. "Skiing was the furthest thing from my mind," says Houssian, who grew up in the flatlands of southern Saskatchewan and founded the Vancouver-based company in the mid-1970s to build residential and office real estate. That changed in 1986 when Blackcomb President Hugh R. Smythe knocked on his door, looking for a buyer. The fledgling resort, then owned by 20th Century Fox Film Corp. through its Aspen subsidiary, was only modestly profitable. But Smythe saw awesome potential both on the mountain, which offers North America's steepest vertical drop, and in the undeveloped land at the base.

By combining Smythe's expertise in running resorts with Intrawest's real estate skills, Houssian figures that the company will be positioned to cash in on "the last great real estate boom of this century—recreational real estate." In

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1994, Intrawest started divesting its remaining urban real estate to devote full attention to skiing.

Why haven't others tried to create a brand-name chain of ski resorts before? "Ski resorts aren't commodities" that can be run like a McDonald's, says Smythe, now Intrawest president for resort operations. The challenge is to enhance uniqueness while ensuring uniform excellence. That can be frighteningly expensive. At $2 million or more, a high-speed chairlift costs as much "as the average U.S. ski area makes in a season," notes Otten. A key reason *Ski Magazine* readers voted Blackcomb No. 1 is that it boasts "the most high-speed lift capacity in the world," capable of carrying 28,362 skiers an hour. The lifts, plus 10 restaurants and other amenities, have cost Intrawest $60 million since '86.

But what really sets Intrawest apart is its real estate expertise. Intrawest exerts tight control to create "total mountain villages," says Gary L. Raymond, who heads the company's resort development unit. The object "is to create destinations, not just sell skiing," says Berry. At Tremblant, more than $300 million has been spent by Intrawest and its partners to create a breathtaking French-Canadian village modeled after Quebec City. And in a joint venture with Ralcorp at Colorado's Keystone, Intrawest has just begun erecting the $400 million Village at River Run, which will consist of 3,500 housing units, plus shops and restaurants, with an Old West motif.

GHOST TOWNS. Intrawest is also keeping a grip on real estate once it's built. In the past, developers at resorts such as Colorado's Beaver Creek sold luxurious condos and homes, only to see them remain vacant most of the year, creating gilded ghost towns. To avoid that trap, Intrawest often requires buyers to put their properties into a rental pool when they aren't being used. Similarly, "we own and manage most of the retail shops," says Jarvis, to avoid the rows of T-shirt shops that clutter so many mountain towns.

Many of Intrawest's ambitious plans exist only as blueprints, but the payoff for the only publicly traded "pure play" in the ski industry could be substantial. "As Stratton, Snowshoe, and Mammoth start kicking in," Intrawest's revenues from real estate and ski operations should rise to $212 million next year, roughly double the 1995 level, predicts Harry Rannala, an analyst at Deutsche Morgan Grenfell Canada. Meanwhile, he adds, net earnings should hit $16 million, up from $8.5 million last year. Now that's a high-speed lift.

By William C. Symonds at Blackcomb

TURNAROUNDS

LEAVE THE DRIVING TO LENTZSCH

Greyhound's CEO is improving service and winning riders

FARE PLAY: *Lentzsch is reaching out to the low-income passenger base*

For Craig R. Lentzsch, turning around Greyhound Lines Inc. should be getting boring. After all, it's the second time he has been called to duty at the often ailing bus line. It's a task many wouldn't touch, but he doesn't mind. "I've made my career in businesses that nobody else wants to be in," he says.

Taking on a tough job isn't so bad if you can make things better. And that's what Lentzsch is doing at Dallas-based Greyhound. In a sharp break with prior management—which cut capacity, stressed shorter routes, and set up an ill-fated hub-and-spoke strategy to compete with airlines—Lentzsch insists Greyhound's strength is its inexpensive nationwide network. So he's expanding long-haul routes and improving service.

When Lentzsch took over in late 1994, Greyhound was near its second bankruptcy in three years. Now, revenues have grown for 10 straight months through January, and 1995 sales rose 7%, to $657 million. After a loss of $65.5 million in 1994, operating income in 1995 was $9.4 million; this year, Greyhound should return to the black. "This was a near-death situation," says analyst Andrew S. Leinoff of Chicago-based Duff & Phelps Inc. "They've done an astounding job."

Still, if Greyhound is back from the dead, many on Wall Street question how much life it really has. Bus travel's share of intercity travel is 1.5% today, down from 5% in 1950. "I'm not sure about the growth prospects," says Leinoff. But Lentzsch dismisses those who figure there's no future in providing low-cost, no-frills travel. After all, 44% of Greyhound's revenue comes from people with incomes under $15,000. "A bunch of upper-middle-class, middle-aged white guys sitting around a walnut table can't understand my customer base," he says.

Although Lentzsch is a 47-year-old Wharton School graduate, he understands this market. Starting out in strategic planning at rival Trailways Lines Inc., he worked with Fred G.

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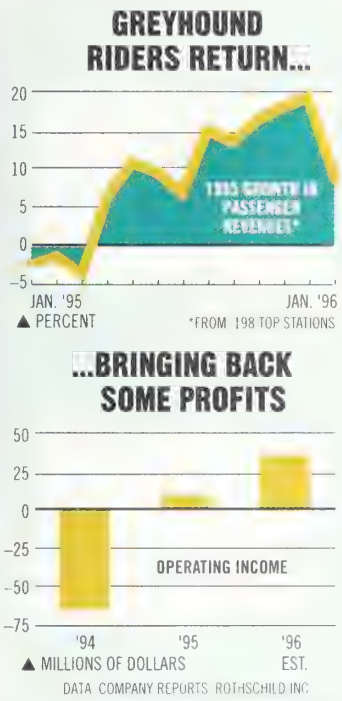
urrey, who later led Greyhound's 1987 veraged buyout and brought Lentzsch oard as vice-chairman. The two renvated terminals, boosted traffic, and rned a profit. But after a falling out ith Currey in 1989, Lentzsch left. urrey was later replaced by CEO rank J. Schmieder. Lentzsch ended o as chief financial officer for busaker Motor Coach Industries International Inc., while a bitter drivers' rike pushed Greyhound into Chapter 1 in mid-1990.

Schmieder took the company out of ankruptcy 17 months later, but his atempt to compete directly with lowost airlines brought sharp losses. After e stock went from 22½ in June, 1993, 5¾ in August, 1994, vestors forced him t. With shareholder wsuits pending, chmieder declined mment.

Greyhound's top areholders quickly sked Lentzsch to rein the board—and ithin months, they shed him to take the p job as well. His st priority was to op the hemorrhaging. entzsch negotiated a w credit line, got ondholders to trade r equity, and raised 35 million in a 1994 ghts offering that riced shares at $2.15. **EAR-RIOTS."** Then he rned to getting peoe to their destinaons without hassle. he company suffered ree-hour waiting nes and "near-riots" in New York's ort Authority in early 1994, Lentzsch ecalls. Thanks to a much heralded sysem Schmieder rolled out in late 1993 to sue tickets and take reservations, hones were clogged with people mak g reservations—80% of whom wouldn't ow up. Yet most customers didn't eed the system—72% buy tickets with three hours of a trip. Last year, entzsch added a third phone center, nd more than 90% of callers now conect the first time.

Lentzsch has also revamped pricing. nder Schmieder, Greyhound slashed dvance-purchase fares to compete with rlines, then raised the walk-up fares sed by Greyhound's core low-income istomers. "My biggest pricing prob m is affordability, not what the airlines charge," he says. Today, Greyhound's maximum one-way walk-up fare is $139, vs. $259 previously—and everyday fares average half of airline discount prices. To make sure riders don't wait too long, Lentzsch is adding capacity. The fleet now totals more than 2,000 buses, up from 1,650. And the long-haul routes Schmieder nearly abandoned are coming back. This year, he'll reopen 200 shuttered rural stops.

OFF THE CLIFF? So far, so good. "The story will get better and better," says Gerald R. Connor of Toronto-based Connor, Clark & Co., which, with associates, owns 11% of the stock. Adds Alan B. Snyder of Snyder Capital Management Inc.: "Lentzsch understands the business and knows what to do."



Yet with costs rising, others on Wall Street worry about Greyhound's past tendency to drive itself off a financial cliff. Blaming in part the horrific winter, Lentzsch warned in February that Greyhound will fall short of the $16.7 million in net earnings previously forecast for 1996. Analyst Rosario S. Ilacqua of Rothschild Inc. thinks it will earn just $5 million this year. Though the total debt-to-capital ratio—including bus leases—has come down to just under 70%, analysts say it's still too high. The questions explain why, although Greyhound did another equity offering at 4¼ in September, 1995, its shares have slipped to around 3¼.

Still, Lentzsch's makeover is far from complete. To produce more revenue, he's expanding the package express business, which did about $31 million in sales last year. Since Greyhound puts packages on buses already carrying passengers, that's mostly gravy. And he expects more growth to come from feeder deals Greyhound is discussing with Amtrak and airlines such as Southwest Airlines Co. He also figures he can boost Greyhound's presence in niches such as casino trips and college markets. Lentzsch is probably on to something. After all, he has traveled this road before.

By Wendy Zellner in Dallas

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Mike the Geek How Mike McCue got Netscape to chase Paper Software

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Bad News Bear Vermont Teddy Bear grew too fast, misjudged new markets, and overspent. Then its stuffing fell out

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No, Let *Me* Help The GOP candidates are all promising entrepreneurs relief

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Auditing the IRS "I'll do everything I can to make the situation simpler": A talk with Commissioner Richardson

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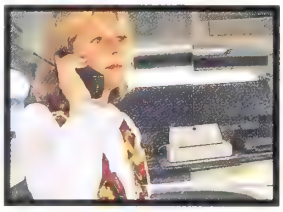
Boos for B-School Entrepreneurs like the contacts, but a degree in hard knocks may be best

Management page 26



Drive-By Workers It's not enough for an idea to be good and hot. Mobile Office Vehicle also has to create the market for its virtual-office minivans

Technology page 28

Extreme Faxing PC-based servers are making it easier, cheaper, and more effective

This Man is an Island A headhunter ups efficiency as he downsizes to one

At Your Service page 32

Twilight Zoning You don't have to run afoul of laws that conflict with home businesses

Wit's End page 34

Bats 'R' You? The regulations just for transporting the suckers could make a person rabid

INBOX

EDITED BY FRED STRASSER

IT'S NOT A TAX CUT, BUT...

Come this time of year, a tax bill can only mean trouble, right? Not if it's the Taxpayer Bill of Rights II.

Although the measure was vetoed last year when it got tangled up in the Republicans' balanced-budget package, Treasury Secretary Robert E. Rubin liked it. So he ordered Internal Revenue Service lawyers to scour the bill for proposals he could adopt without legislation. In January, Treasury and the IRS announced a bunch of administrative actions, including some that could help small companies.

TREASURY'S RUBIN

A few examples:

- Businesses caught in an audit will soon get speedier appeals. Suppose the IRS insists that certain workers are really employees—not the independent contractors you've claimed. Under a rule to be put into effect shortly, you can appeal that issue without waiting for the completed audit. That could settle key questions sooner and at less expense. It might even make the IRS drop the rest of the audit.
- The IRS taxpayer ombudsman now has more clout to settle disputes between taxpayers and tax collectors. "Problem resolution officers" in IRS district offices can order immediate refunds for taxpayers facing severe hardships or temporarily stop collection orders for back taxes on a disputed bill.

The Treasury also gave these officials a more potent weapon: If the IRS is ordered to cease action against a taxpayer, only three top IRS officials can overrule the order.

- Form 941, the quarterly income- and payroll-tax withholding report, can now be filed via modem rather than on paper or magnetic tape. For additional information on electronic filing, call the IRS help line at 901 546-2690.

O. K. It's not a tax cut. But the new rules should make dealing with the tax collector a little less dreadful.

SO THEY SAY

"The reward should be for getting it right and helping taxpayers"

—IRS Chief Margaret Richardson on evaluating tax agent performance

LAUNCHED IN CYBERSPACE?

You can still join the vanguard of small businesses in cyberspace—but don't wait too long. Fewer than 20% of small and midsize businesses use the Internet, a survey by consultant George S. May International Co. found. But in a year or two, 40% of the 1,049 surveyed plan to. For now, "they just don't see the benefits," says May's Rosalind Angell. These free sites may help:

U.S. BUSINESS ADVISOR (http://www.business.gov)—introduced by Vice-President Al Gore himself—is a simple, well-organized site that helps you navigate government databases, regulations, and information with keyword searches and browsable subject trees. Small-business focus groups helped refine the site's design.

MCI SMALL BUSINESS CENTER (http://www.mci.com/SmallBiz) is a comprehensive collection of links to small-business-related Web sites where a wealth of information on financing, services, prospective employees, and government agencies awaits.

NETMARQUEE (http://www.nmq.com) is aimed at family-owned and small businesses. It offers topic-searchable/browsable archives of helpful documents and articles and a calendar of small-business events and seminars.

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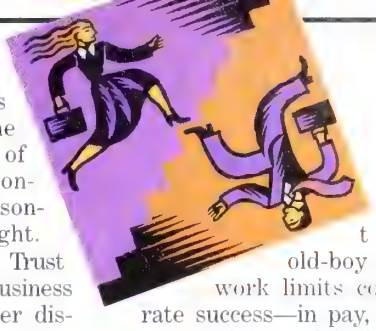
GENDER WATCH

As women forge ahead in small business, a distinctive female view may be seen forming. Take the reasons that a person gives for starting a business in the first place—a question posed in a Roper Starch poll done for Intuit: The chance to make money was a factor for 31% of the men but only for 18% of the women, while the opportunity to be your own boss mattered to 62% of the men, but to just 48% of the women. Women consistently gave personal goals more weight.



A smaller, U.S. Trust survey of top women business owners turned up other disparities, including the political gender gap. Example: Only 18% of these high earners—compared to 63% of similar male business owners—think that the government has made things "much worse" for business lately.

Why are these women in business in the first place? About three-quarters cited the discrimination prevailing in the corporate world as their key motivation, agreeing that the old-boy network limits corporate success—in pay, promotion, and just plain being taken seriously.

Women even have different plans for their business legacy. A Coopers & Lybrand survey of fast-growing, female-headed firms found 59% of women plan to pass the business along eventually to a close family member. Among their male counterparts at similar firms, however, only about 22% have such plans.

UNCLE SAM AND THE NAME GAME

f you're thinking of naming your creamy new
nini-cones-with-chips "Micro-Softs," check with
our lawyer. A federal law effective in January lets
wners of "famous" trademarks sue to stop use of
heir mark if it tarnishes the mark's image or di-
utes its impact. Half the states already had simi-
ar statutes, but lawyers predict the federal law
vill prompt owners to become more aggressive.

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on the subject. Joining
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ented professionals discussing such topics as "Money and Power Transfers in the Family Business." With academics from up to 70 institutes attending, the event suggests family business is coming into its own as a serious research topic. The cost is $250 per person. More information is available on the World Wide Web at http://nmq.com.CornellConference or at 717 871-9343.

BIG BANKS, SMALL LOANS

Small-business lending by the biggest bank holding companies is up 17% from 1994, says SBA Office of Advocacy Chief Counsel Jere Glover, but that's mostly as a result of mergers and acquisitions. Small local banks remain the friendliest to small borrowers. For the Office of Advocacy's state-by-state breakdown of every commercial bank and its small-business lending record, check the Internet at http://www.sbaonline.gov/SmallBusinessLending1995/ or call 703 487-4650.

THE 10 LARGEST LENDERS TO SMALL BUSINESS

HOLDING COMPANY	SMALL-BUSINESS LOANS* BILLIONS	TOTAL DOMESTIC ASSETS BILLIONS	PERCENT**
NATIONSBANK	$3.42	$167.68	2.0%
KEYCORP	$3.07	$64.63	4.7%
BANC ONE	$2.9	$87.89	3.3%
FIRST UNION	$2.43	$84.98	2.9%
NORWEST	$2.22	$59.25	3.8%
BANKAMERICA	$2.10	$175.79	1.2%
SUNTRUST BANKS	$1.65	$43.45	3.8%
WELLS FARGO	$1.56	$49.61	3.2%
FLEET FINANCIAL GROUP	$1.53	$47.54	3.2%
BOATMEN'S BANCSHARES	$1.44	$33.00	4.4%

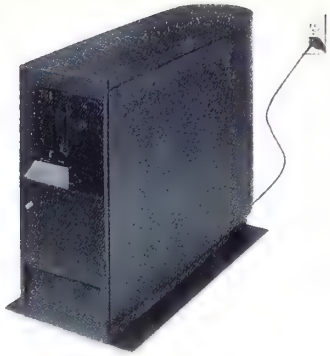
*LOANS UNDER $250,000 **SMALL BUSINESS LOANS AS PERCENT OF TOTAL DOMESTIC ASSETS
DATA: SMALL BUSINESS ADMINISTRATION OFFICE OF ADVOCACY, 1995 BANKING STUDY

VICE, AND 70% USE MODEMS, SAYS A VISA U.S.A. SURVEY

An AS/400® Advanced Series Solution

is using Infinium™ software
deliver client/server comput
to the Roanoke Valley

Behind Gene Berry's success in transforming Shenandoah Life



He was also the first to see
that AS/400 Advanced Series
let the company add new business
without adding complexity.

and insight into the
insurance needs of single-
parent families there.

Even an 80-year-old company has to be able to change with the times. So to keep from being overrun by neighboring giants, Shenandoah Life staked out some new territory of its own. How? By focusing on the insurance needs of working women and single mothers.

After careful analysis they also decided on AS/400 Advanced Series and Infinium client/server software from Software 2000.

What Gene liked most about his AS/400 Advanced Series was that everything he needed – operating system, communications and security – was all there, in one flexible, integrated package. And at a real savings over his previous system.

In Software 2000 he also found the financial tools to keep his business growing, with software that could manage the entire operation – from general ledger to accounts payable to purchasing. So he could provide better service to all his clients, both young and old, alike.

To find out more about how Infinium software on AS/400 Advanced Series can improve the quality of life in your company, call us at 1 800 IBM-3333, ext. BA014. Or visit our home page at http://www.as400.ibm.com*

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YOU DON'T HAVE TO BE TED TURNER TO MERGE

Small companies can also reap substantial benefits from the M&A game

ACQUISITIONS

Warren Struhl, a 33-year-old entrepreneur in Secaucus, N.J., had made a big success of his company, which supplies specialty papers and stationery for small businesses to use in desktop publishing. But his success was creating a serious problem. Some of the original investors in his five-year-old company, PaperDirect Inc., wanted to cash out. After some searching, he found an investment bank willing to buy a 20% stake. But then Deluxe Corp., a $1.8 billion Minneapolis concern that prints and processes checks, offered him more than $100 million for the entire company. "It was an offer I couldn't refuse," Struhl says. In August, 1993, he paid off his original investors fiftyfold.

Now, Struhl is playing the acquisition game himself. His new company, six-month-old Genesis Direct, based in Fort Lee, N.J., was founded as a consolidation play in the fragmented catalog industry. He plans to buy up niche catalogs with sales of roughly $10 million each and provide them with efficient, centralized operations and the technology to make them more profitable. Economies of scale, such as paying in bulk for paper and mailing, will also improve the bottom line. He has already completed one acquisition and has 15 more under way. Selling PaperDirect was what got him interested in buying other companies. "The fact is, it was intriguing for me to be involved in the acquisition process," says Struhl. "That was one of the sparks that ignited me."

Billion-dollar megamergers, such as Time Warner and Turner Broadcasting System or Walt Disney and Capital Cities/ABC, have been making headlines over the past couple of years. Yet there is an equally drama ic merger wave involving thousands companies a mere fraction of that siz According to Mergerstat, which talli deal information, some 1,061 transa tions of $50 million or less worth $18 billion were conducted in 1995, vs. 7 in 1994 and 483 in 1991 worth $6.2 b lion. A Coopers & Lybrand survey la summer of fast-growing businesses wi under $50 million in sales found th nearly half are planning a new acqui tion in the next three years.

Many of the small-business deals a in the same industries as the megame gers, such as banking, health care, m dia, computer software, and telecomm nications. But much of the actio involves mom-and-pop companies. surge of consolidations has transform such traditionally fragmented industri as waste management, funeral servi es, auto supplies, and video stores.

Several powerful trends have been iving both large and small deals: A able economy, low interest rates, and ailable credit. One of the most imrtant factors, says Michael J. Rolland, nanaging director responsible for mid-e-market mergers and acquisitions at errill Lynch & Co, is the high level of ock prices, which is giving owners the nfidence and the leverage to expand.

SH RICH. The buoyant market has en especially valuable for buyers, as niel A. Potter, chairman of Video Upte in St. Paul, Minn., will attest. He ok his company public with only 15 res in 1994 when he saw the consoliion-wave starting to hit his indus-. Potter has acquired 19 video-rental npanies and now has 225 stores in e U.S. and Canada. The ability to rchase companies for stock, "has been ery powerful tool," he says.

Buyout and venture-capital firms, sh with money from pension funds l other institutional sources, are also king deals happen. Last year, buyout ns raised $14.1 billion, more than six nes the $2.2 billion they raised in 90, according to *Private Equity Anat*, a newsletter out of Wellesley, Mass. hat's the rocket fueling this activity," says Ted Stolberg, a partner at Stolberg Partners, a small-company investment firm in Denver.

Owners of small companies, for their part, are coming to realize that mergers and buyouts are the easiest ways to catapult themselves into the big leagues. "It's harder to be independent than it was 20 years ago," says Carl Thoma, a principal in Golder Thoma Cressey & Rauner, a private equity firm in Chicago that buys and consolidates small businesses. Bulking up gives companies more clout with suppliers, fills gaps in their core businesses, and allows them to afford new technologies that will help them compete locally and globally. In a period when it's hard for companies to improve earnings either by raising prices or further slashing costs, an acquisition can double revenues virtually overnight.

The net result of this activity is that, for small companies, the merger game these days is decidedly a sellers' market. "This is probably going to turn out to be the best time to be selling," says Stephen P. Galante, editor of *Private Equity Analyst*. Adds Thoma: "A number of years ago, there really wasn't anyone to sell to. Now, somebody will come along and offer you a sum you never dreamt of."

Pulling off a good deal, though, can be a highly complex undertaking. Among the many considerations are whether the buyer's and seller's cultures will mesh. That is especially important in such industries as software, says Maxwell Steinhardt, president of TMS Inc. in Stillwater, Okla., which sells software used in document image processing and CD-ROM publishing and which recently agreed to acquire Sequoia Data in Burlingame, Calif., a maker of complementary software. "We looked at a bunch of companies before we got this deal going," he says. "In the software business, people are everything. You really need to click very quickly or it isn't going to pay off for you like you hope."

SUITOR AUCTION. The case of Plumley Cos. in Paris, Tenn., is a particularly graphic illustration of the fact that deals involving small businesses can be as difficult and complex as the megamergers. Michael A. Plumley, chairman and CEO of the manufacturer of custom-molded rubber components, mainly for the auto industry, took over the company from his father in 1987. Since then, sales have grown from $56 million to more than $125 million. He needed more capacity to expand, plus his customers were asking him for complete engine sealing, rather than just rubber gaskets. "We had a tremendous capital crunch for growth," says Plumley. To take the business to the next level, he wanted to raise more capital. But two of his brothers wanted to cash out to pursue other careers rather than invest more in the business.

In June, 1994, Plumley set out to find a partner. "We decided to see if we could align strategically with someone who could assist us capital-wise as well as have the other product lines we needed to do total engine sealing." He enlisted Furman Selz, a Wall Street in-

vestment banking firm. The firm set up a competitive bidding process. After rejecting more than a dozen suitors, Plumley decided in January, 1995, to sell the business for stock to Toledo-based Dana Corp., which manufactures a variety of automotive components and industrial products. Plumley's two brothers got liquidity, and the company got tremendous financial backing and the new product lines it needed to meet its customers' needs. Plumley and a remaining brother stayed on to manage the growth.

But while he is happy with the deal, Plumley says the eight months it took to find a partner and put the acquisition together were tough. "It's a grueling emotional process," he says. "You're selling your life to an extent." Even after the deal closed, he says, "the emotional roller-coaster has not ended, and we did the deal a year ago." While he is pleased with Dana, he says, "after being in a family business for 23 years, yo don't just immediately adjust to a ne set of parents."

Now, Plumley is on the other sid Last December, he bought Mohaw Plastics Co., which makes molded pla tics. It may be a seller's market thes days. But, says Plumley, "it's a lot mo fun to be a buyer."

By Amey Stone, with David Leo hardt, in New York and Wendy Zel ner in Dallas

CONVERTING A CRAPSHOOT INTO A COUP

Buying a business can be exhilarating. Selling a business is often traumatic. And both can be very frustrating. These emotions tend to complicate things when you're trying to arrange a deal. "Risks in an acquisition all come from one thing: a lack of maintaining your objectivity," says James E. Schrager, senior lecturer at the University of Chicago Graduate School of Business.

When you're selling your business, the most emotional issue is likely to be whether you want to stay involved after the sale, or at least retain a stake. The vast majority of sellers want to exit the business. This is the best strategy, says Susan E. Pravda, an attorney specializing in mergers and acquisitions with the Boston firm Epstein Becker & Green. She warns that owners who stay on "are almost always unhappy. They are used to running the firm exactly the way they want to. The culture of the firm will undoubtedly change, and they won't be happy with it."

COAT OF PAINT? While mulling this issue, you need to pursue the other steps toward a successful sale as dispassionately as possible. First, you'll need to consult several financial advisers. If you want to have a competitive bidding process, retain an investment banker. Many won't work with companies under $20 million in sales, so you may need to go to a smaller, regional firm or a business broker. Often your local bank or accounting firm can help. You can expect the cost of professional advice to run between 2% and 5% of the sale price, but it may be worth it.

Before you start talking to buyers, find out how much your business is actually worth, then make sure you portray your balance sheet and income statement in the best possible light. You might also think about reducing excessive salaries that bloat your cost structure. Settle pending litigation and other potential roadblocks to completing the deal. Even something as simple as giving the company's office a fresh coat of paint or doing some landscaping can help the purchase price.

Be prepared for a lengthy due-diligence process. Resolving tax, legal, and financial questions involving the structure of the deal can be more stressful than you expect.

Take advantage of the current seller's market. You may have several suitors, which should give you bargaining power to negotiate a favorable deal.

From the buyer's side of the table, one complication can be the euphoria that typically sets in. Often, the exciting atmosphere of dealmaking leads to overpaying. John Chuang, president of Cambridge-based MacTemps Inc., a temporary-placement company, admits getting a charge from the frantic phone calls, high-pressure ultimatums, reams of documents, and investment bankers rushing from room to room. His first acquisition of another temporary-placement outfit reminded him of the kind of high-stakes dealmaking he had only read about in *Barbarians at the Gate*. "You have to know at what point you're just going to walk away," Chuang says.

It's crucial that your acquisition be part of a carefully tooled strategic plan. Too many buyers seek growth for growth's sake. Analyze the deal's long-term prospects. Are anticipated synergies really achievable? Will projected economies of scale really materialize? Will the two cultures mesh?

When you negotiate the deal, make sure to provide incentives for key managers to stay on. But be wary if the seller's CEO or owner wants to continue to play a major role.

Whether you're a buyer or a seller, you need to resist the worry that you have to get in on the consolidation wave as soon as possible. Before you move, says University of Chicago's Schrager, "You better have a strategy that works. Big is not particularly better."

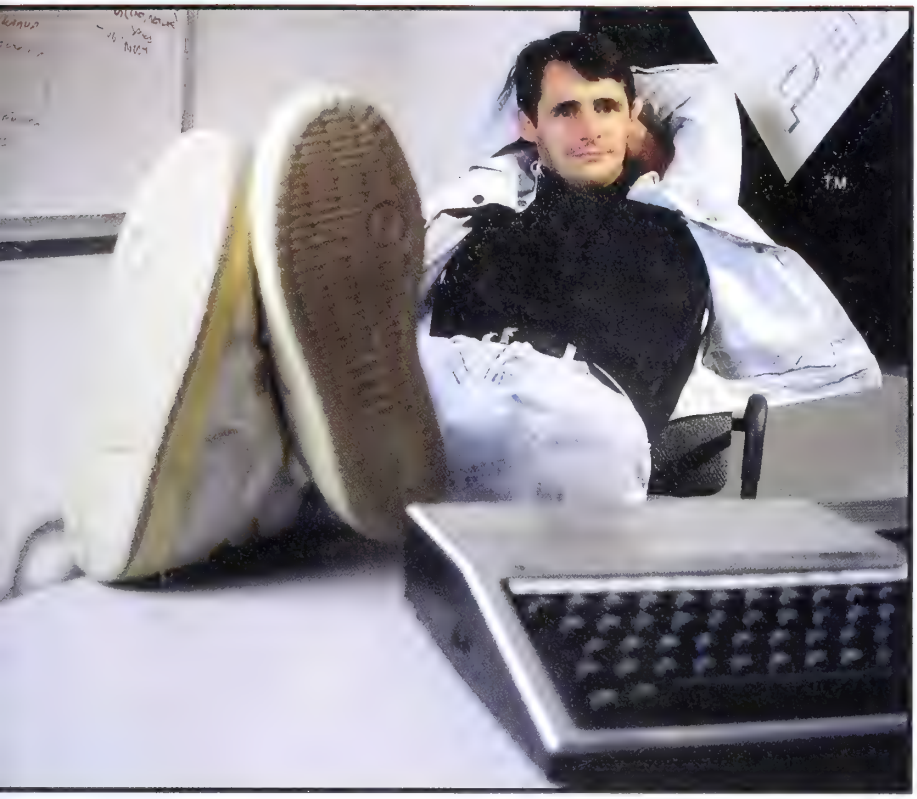
By Amey Stone in New York

Where the Action Is

*Top Industries for Small-Business Mergers**

INDUSTRY	VALUE BILLIONS
BANKING & FINANCE	$2.50
COMPUTER SOFTWARE, SUPPLIES & SERVICES	2.01
LEISURE & ENTERTAINMENT	1.09
INSURANCE	0.96
MISC. SERVICES (from auto repair to day care)	0.78
HEALTH SERVICES	0.77
WHOLESALE & DISTRIBUTION	0.74
DRUGS, MEDICAL SUPPLIES, & EQUIPMENT	0.71
BROADCASTING	0.67
RETAIL	0.60

*Transactions under $50 million during 1995
DATA MERGERSTAT



DREAMER: *His programs let users "zoom" through information*

TO BE YOUNG, GIFTED, AND GEEKY

ichael McCue: From computer whiz to millionaire at 28

ENTREPRENEURS

As a youngster, Michael McCue dreamed of becoming a space-shuttling astronaut. He rushed off to science fairs, built cardboard oots, and even created a spacecraft nulator out of tinfoil, paper, and mod- railroad tracks. "Everyone thought I as a little crazy be- use I didn't spend a of time out of the house," recalls Cue. "But I was too busy building ngs and dreaming. In some sense, I ought I was training to become an ronaut."

Now a lanky and boyishly good-look- 28, McCue is truly in orbit. As chief ecutive officer of Paper Software Inc., has just become a multimillionaire selling his company, located above Indian restaurant and a New Age okstore in Woodstock, N. Y.

The young entrepreneur, moreover, engineered the estimated $20 million sale of his virtual-reality software outfit to perhaps the hottest company in years, Netscape Communications Corp. The deal, announced on Feb. 12, instantly made four of Paper's dozen employees millionaires—all from a company that has never earned a penny of profit, headed by a onetime computer geek who never went to college, and whose oldest employee is 33.

For McCue, the journey began in the first grade at St. Columbus' Elementary School in Hopewell Junction, N. Y., when he penned a report on his passion to become an astronaut. Wide-eyed at the notion of walking on the moon, he later became so captivated by the *Star Wars* hoopla of the late 1970s that McCue and a friend fashioned their own four-foot-tall version of R2D2, which could project slide images on a wall.

As a freshman at Cornwall (N. Y.) Central High School in 1981, he built a calculator for a science fair and wrote his first software program, called Shuttle Flight, on a TI-99/4A computer that belonged to the school's computer club. His fascination with technology turned into an obsession when his father, who ran his own local advertising agency, developed colon cancer, and Michael needed somewhere to escape from the turmoil at home. Within a year, McCue emerged as the leader of the lab. "I ate, drank, and slept computers," he says. "I became a total computer geek. I'd sit in math classes with a programming book hidden inside my math textbook."

In his junior year, McCue authored his third computer program, Night Mission, a game based on President Carter's abortive attempt to rescue hostages by helicopter from Iran. He sold it to a distributor for a 25% royalty. Yet another game, Jungle Jim, was published in *99er Home Computer* magazine, eliciting a pile of fan mail from across the country. Deciding against college, he worked in a software store after graduation before landing a temporary job at IBM, where he created computer graphics for executive presentations.

IBM didn't permanently hire people without college degrees. But McCue had other ideas. He wrote an innovative computer program, Graphics Management System, that soon became used internally by thousands of IBMers. Established as something of a wonder boy, he landed a permanent job. But he quickly became disillusioned with IBM's bureaucratic culture and quit in late 1989 after a 3½-year stint.

KUNG FU. Captivated by the vision and idealism of Apple founder Steve Jobs and his successor John Sculley, the high school nerd transformed himself into a Jobs wannabe. He went to International Toastmasters to improve his public speaking. He began taking kung fu lessons to gain greater confidence and balance. And he began to think of technology as a means to something else: "My goal is to create the next medium for human expression, communication,

and thought," he says without a trace of immodesty.

In his worn white sneakers, ripped jeans, black turtleneck, and a faded denim jacket, McCue at least appears to be a '90s reincarnation of an earlier Jobs. He gleefully tosses off such phrases as "cool," "incredibly awesome," and "nifty." He speaks about technology with a perpetual smile and kinetic energy. "He conveys excitement similar to Jobs," says Danny Rimer, an analyst with Hambrecht & Quist. "He shows a genuine passion for what the World Wide Web can provide."

Like Jobs, he launched his company in the garage of his mother's house, writing a business plan for a software startup that failed to get off the ground when he couldn't raise any money. McCue dug ditches and carried shingles up roofs for $250 a week until getting a more lucrative position as a computer consultant at Merck & Co.—at $50 an hour. In every moment of spare time, he worked on a new product, SideBar, an icon bar that sat on the side of the computer screen and simplified Microsoft Corp.'s first version of Windows. He packaged the product in a glossy black album sleeve, with white type that simply said: "Intensely Simple," a throwback to Jobs's famous "Insanely Great" line. McCue also spent $10,000 on an elegant logo for the company, Paper Software.

In 1991, with SideBar in hand, he raised $100,000 from eight investors—$15,000 from the parents of a high school friend. But instead of giving them a stake in his company, he structured the investments as loans and agreed to pay royalties on sales. McCue created 1,000 copies of the program, hired a public-relations agent, and went on a press tour. Trade newspapers gave him good reviews, but sales were few. As luck would have it, however, in 1993 he licensed it to IBM for $250,000 and later sold the marketing rights to another company for $500,000.

FREE OFFER. He quickly paid off his investors and sank the remaining cash to the business. McCue set up in Woodstock, hiring a coterie of programmers including some ex-IBMers, who helped him carry out his vision. Using overlapping windows and icons as the user interface, McCue envisioned a simulated 3-D environment in which users zoomed in and out of information. "It would let you fly through information, zooming down to the tiniest of details and zooming all the way up to see how these things relate to your life," he says. "When you start dealing with massive quantities of data, you need a new metaphor. Zooming got to it."

By mid-1995, McCue and his band had their first major product: WebFX, a program that enabled a user to display and manipulate 3-D objects over the World Wide Web. The software let developers of Web pages map multiple layers of data onto a 3-D model of the earth so users could zoom in on greater detail. McCue gave out the product for free via the Internet, and within six weeks, more than 100,000 people downloaded it.

> "We knew [our 3-D software] should be part of the Netscape Navigator. They wouldn't give us the time of day.... So I carpet-bombed the company"
>
> MICHAEL MCCUE, Paper Software

No less crucial, McCue later modified the product so it could be easily plugged into Netscape's software for browsing the Web. "We didn't do 3-D for 3-D's sake, but to improve information management," says McCue. "So we knew it should be a part of Netscape Navigator. That is what separated us from the pack of 20 other companies."

Last fall, when Netscape released an updated version of its Navigator that allowed for plug-ins by other developers, McCue served up his new version within a week. He knew that to succeed, the company had to grow fast, so he thought an alliance of one kind or another with Netscape—the dominant player on the Web—was critical. Frustrated by his inability to attract the attention of Netscape officials, in October he sent E-mail messages to 70 employees there. "They wouldn't give us the time of day," recalls McCue. "So I carpet-bombed the company. I wanted them to take notice."

His strategy worked, allowing him to gain the ear of Alex Edelstein, Netscape's senior product manager for Navigator. Edelstein put up a notice for the software on Netscape's opening Web page in early November, and Paper Software got over 200,000 hits in less than three hours. The upshot: By giving away its product to nearly 3 million users, Paper Software became a hot virtual-reality software company. Venture capitalists began calling up. Analysts sat up and took notice.

"SLIM RESOURCES." Finally, in early December, McCue got an invitation from Netscape. He and his colleagues stayed up all night before the meeting, writing new code to "push the limits" of their product for the demo the following day. "We coded our guts out in a hotel room in San Diego, while our content engineers worked through the night in Woodstock to send us stuff via the Internet," says McCue.

On Dec. 16, he met Netscape's Marc Andreessen, inventor of the pioneering Mosaic software for browsing the Web. After a six-hour discussion, Andreessen was so impressed by McCue and his product that he suggested a possible acquisition. It took until midnight on Feb. 11 for McCue finally to sign the contract to sell. "Mike built a really excellent company with slim resources," says Netscape's Edelstein. "His 3-D technology was the best, but what excited us the most was the chance to acquire this top-flight group of guys who were eager to keep working and who shared our vision for where the Internet is going."

Under the deal, McCue and most of Paper's employees will move to Netscape's headquarters in Mountain View, Calif., where they will work with the company's programmers. The prospect of working alongside Andreessen thrills McCue. "Marc is like a hero to me," he says. Yet he felt mixed emotions when he signed the deal. "I hadn't slept in three or four days," says McCue, who negotiated the stock deal with Netscape Chief Financial Officer Peter Kenney. "My emotions were mixed because I wouldn't head up a company anymore. The logo, the company name and brand will go away. But I knew I was getting an excellent deal. I'll be able to help design the next operating system for the future." McCue may not have turned out to be an astronaut, but he seems intent on flying far from home.

By John A. Byrne in Woodstock, N.Y.

THE CORPORATE CARD FOR SMALL BUSINESS

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s must be made on the American Express Corporate Card for Small Business or the Executive Corporate Card for siness. Account must be in good standing at time of purchase to receive savings. Not valid on diesel fuel.

CAN TEDDY BEARS COME OUT OF THE WOODS?

Things fell apart fast for Vermont Teddy Bear after its big IPO–but it may be on the men

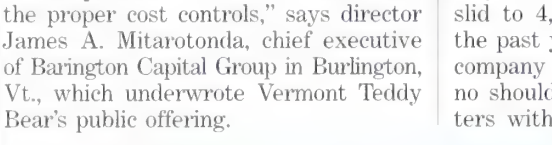
TOY STORY: *Burns's cost-cutting has stemmed—but not eliminated—the red ink*

It was every entrepreneur's dream. In 1990, John N. Sortino turned an $80,000 business selling stuffed bears from a pushcart into a $1.7 million company by pitching the toys on the radio. His promise to deliver cuddly, American-made bears by next-day air made his Vermont Teddy Bear Co. one of the fastest-growing small businesses in the country. Three years later, sales rocketed to $17 million. When Vermont Teddy Bear went public in December, 1993, Sortino reaped $15 million in paper profits.

Then last year, Vermont Teddy Bear had the stuffing knocked out of it. Barely 18 months after raising $10 million in the stock offering, the company was losing $330,000 a month and found itself unable to pay $2 million in debts. After a boardroom uprising last summer, new management, led by R. Patrick Burns, a former marketing executive at Walt Disney Co. and L. L. Bean Inc., is struggling to rebuild the company.

Vermont Teddy Bear fell into that familiar trap for entrepreneurial companies that suddenly take off: Founders with a great idea but no business experience launch a successful product—only to stumble once the business outgrows its kitchen-table origins. Sortino came up with a breakthrough marketing idea that ignited sales. But then, he expanded too fast, spent too much, and misjudged the potential of new markets, according to company directors and managers. "They were an inexperienced staff and didn't have the proper cost controls," says director James A. Mitarotonda, chief executive of Barington Capital Group in Burlington, Vt., which underwrote Vermont Teddy Bear's public offering.

HARD LESSONS



Sortino, 44, began selling handma stuffed bears on the streets of Burlingt 15 years ago. Things didn't get mu more sophisticated than that until 19 when he got the idea of hiring radio p sonalities Don Imus and Howard Ste to hawk "Bear Grams" to their Ne York listeners. A call to an 800 numb put customers through to "bear cou selors," who helped them choose gi ranging from Santa Bear to Balleri Bear to a Gangster of Love Bear—co plete with zoot suit. The gimmi worked, and business soared, despite t teddy bears' $60-plus price tags. Wh the company went public in Novemb 1993, its shares opened at 10 in ove the-counter trading and jumped to 17 one day, briefly giving Vermont Ted Bear a market value of $86 million.

SPENDING SPREE. It didn't take long t things to spiral out of control. Bur says that after the stock offering, ma agement spent money "like a kid in candy store going crazy." Says Sortin who walked away with $600,000 in de forgiveness and 19% of the stock: made a lot of mistakes."

One of the worst was to use $7 m lion of the $10 million in IPO proceeds build a new corporate headquarters on 57-acre tract in Shelburne, Vt. Lo before the offices were completed la July, Vermont Teddy Bear's stock h slid to 4, where it has languished f the past year. No one disputes that t company needed more space, but Sor no should have financed the headqua ters with bank debt to conserve cas Burns says. Sortino no agrees.

Then, there was the i ventory fiasco. In 1994, t company stockpiled $4 m lion worth of tedd bears—an increase of 65 from 1993—as the comp ny's sales rose only 20 Sortino was banking on big surge from expand radio ads in new U. markets, a race-car spo sorship tied to a stuff

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bear named "Racer Ted," and a test-marketing foray in Britain. One big problem: Vermont teddy bears sold poorly outside the Northeast.

Things got worse fast. While sales went sideways, expenses kept rising. Losses totaled $2.4 million in the first six months of 1995. With cash reserves dwindling, banks refused to lend more money. Some $2 million in debts to radio stations and building contractors went unpaid for more than 90 days. Finally, a desperate board booted Sortino out last June and signed up Burns in August.

LOUSY IDEA? Under Burns's leadership, Vermont Teddy Bear is showing signs of coming out of hibernation. Since last August, he has slashed the workforce by 22%, to 175, mortgaged the headquarters for $3.5 million, and obtained bank credit lines of $1.5 million. Inventories are down 37%, and the company is current on its debt. But Vermont Teddy Bear is not out of the woods yet. In the December quarter, sales dropped 24% below their level a year earlier because a cash shortage forced cutbacks on both radio ads and the distribution of a catalog, Burns says. Losses totaled $177,000 for the period.

Amarnath Bhide, a professor of entrepreneurship at Harvard business school, questions whether shareholders will ever see a profit from their investment in Vermont Teddy Bear. He argues that the company's business of direct-marketing premium-priced bears is "not sustainable" because the market is too small, and that developing broader distribution channels would be too expensive. "This [company] was never good idea to begin with," he says.

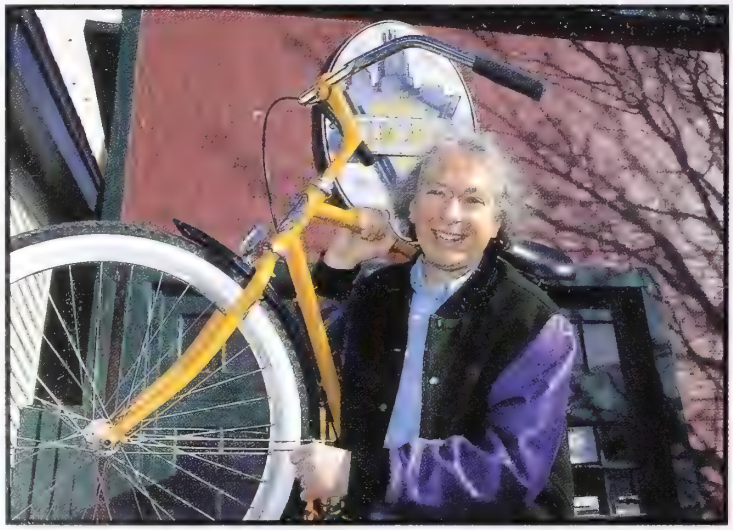
Not surprisingly, Burns disagrees. H says Vermont Teddy Bear will sta making money again later this year ar estimates sales growth of at least 5% 10% in 1997. Burns's plan is to remak the business as a national brand usir The Great American Teddy Bear as brand name. He wants to open ente tainment-oriented stores with bear-stuf ing machines that will make bears the spot for waiting customers and off branded apparel, too. Already, he ha hired an architect to draw up plan But don't look for teddy bear boutiqu at your local mall anytime soon. Burn is still saving up for the $600,000 nee ed to build the first store.

By Geoffrey Smith in Shelburne, V

BYE-BYE, BEARS. HELLO, BIKES

John N. Sortino blew it at Vermont Teddy Bear Co. Now, he's trying to prove himself with startup No. 2: Chicago Bicycle Co. "I wanted to start a company and do it right this time," he says.

Once again, Sortino is trying to carve out a niche in a well-established market. In 1994, while still running Vermont Teddy Bear, he opened a factory in downtown Chicago to make old-fashioned-style "cruisers"—bikes with springy seats, upright handlebars, and a cushy ride. His idea: to sell them to aging baby boomers the same way he sold teddy bears—through the mail. "I know I can sell as many bikes as I want," Sortino boasts.



CHICAGO BICYCLE'S SORTINO: *Cruisin' for another bruisin'?*

But Chicago Bicycle, with headquarters in Burlington, Vt., is still trying to get its sales in gear. Last September, during a month of test-marketing through radio ads in New York City, it received 6,000 phone calls but few orders for the bikes, which start at $750. Sales for the year reached $[illegible]000. Tom Stendahl, president of Schwinn Cycling & Fitness Inc., the country's biggest cruiser maker, questions the idea. "In this business, you need personal service," he says. "I doubt many people are going to want to buy bikes through the mail." Sortino tries to solve that problem with a network of bicycle-savvy college students who deliver and adjust bikes for mail-order customers. Concedes Sortino: "The weakest part of Chicago Bicycle is direct mail."

Another problem is stiff competition—and Chicago Bicycle's steep prices. Cruisers have been hot sellers for the past two years, and powerhouses Schwinn, Huffy, Trek, and Giant all have large retail networks selling their versions for $150 to $350. Florida grocery stores now sell foreign-made models for under $100.

SCIENCE PROJECT. Still, Sortino is convinced he has another hit. "I've scientifically worked on every piece of this business," he says. He plans another radio blitz in the spring and hopes to set up a factory and dealer network in Europe later this year. Sortino says sales will run between $2 million and $3 million this year.

Sortino, who is talking to backers and hopes to take the company public in three years, is putting his own money at risk this time around: He has more than $1 million sunk in Chicago Bicycle so far. Maybe that's why he isn't taking any more chances on his management expertise. He has already hired two former executives from bikemaker Cannondale Corp. in Georgetown, Conn., as chief financial officer and head of European operations, and he plans to hire a CEO this summer.

By Geoffrey Smith in Burlington, Vt.

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FISHING FOR THE SMALL-FRY VOTE

What GOP Presidential hopefuls are offering you

When it comes to the GOP Presidential field, Jerry Harris is a torn man. Harris, who owns a Phoenix insurance agency, thinks that Senate Majority Leader Bob Dole (R-Kan.) can get things done because "he knows the system." But then there's millionaire magazine publisher Steve Forbes, whose outside-the-beltway status and calls for a flat tax resonate strongly with Harris. He finds fiery orator Patrick J. Buchanan's concern about the loss of U.S. jobs to foreign competitors equally compelling. Then again, Former Tennessee Governor Lamar Alexander also intrigues Harris because "he was actually in a business."

If Harris sounds confused, he's not alone. As primary season heats up, the GOP candidates are all vying for the support of entrepreneurs. Small business employs roughly 50 million people in the U.S.—just one reason for its clout with pols. But the campaign messages overlap, and no one candidate has yet locked up the small-business vote.

DOLE'S EDGE. It's certainly not for lack of trying. On the stump, Dole regularly trumpets his Congressional track record of pushing regulatory reform and tax cuts—important issues to small business. Alexander cites his experience as co-founder of a child-care company. Forbes boasts of being a businessman "who knows what it means to meet a payroll." And Buchanan has penned a 10-point *Small-Business Bill of Rights*, available on the Internet. "Every candidate is making an effort to reach out," says John Paul Galles, president of National Small Business United.

Dole appears to have the edge—for now. A recent National Small Business United/CNBC poll showed Dole leading his GOP rivals with 27% of the small-business vote, followed by Forbes with 18%. Dole owes his lead largely to his legislative record: The National Federation of Independent Businesses figures Dole has voted with small business 80% of the time on issues such as the deductibility of health-care costs for the self-employed. "He knows the game and he knows how to play it," says Arthur C. Larrivee, a New Bedford (Mass.) real estate appraiser.

CAMPAIGN '96

Trouble is, Dole's 34 years in Washington also work against him with some small-business owners. That's where Forbes's outsider status strikes a chord with many entrepreneurs, who have embraced the publisher's flat-tax proposal as a way of simplifying and possibly lowering their tax bill. "In 1992, we paid more to accountants than we paid in taxes," says Frank W. Goodnight, who owns a commercial printing company in Salisbury, N.C. "That's dumb."

Small-business owners also worry about education and workforce quality. Many like Alexander's calls to abolish the Education Dept. and give parents greater control over their children's education. And the Tennesseean says his plan to cut capital-gains taxes would create "a Niagara Falls of new jobs."

Pat Buchanan's 10-point plan outlines reforms such as a moratorium on new regulations and protections against frivolous lawsuits. It also calls for eliminating capital-gains taxes on risk-capital investments in startups, and for ending inheritance tax on family businesses. While these positions have won the support of many small business owners, others worry about Buchanan's trade stance. Saul Herscovici, whose Waterloo (Iowa) company makes gearboxes, figures a third of his sales go overseas. He warns that Buchanan's protectionism could backfire. "Isolationism doesn't work," the Romanian immigrant says. "Our economy would collapse."

Like many other small-business owners, Herscovici wants government off his back. But with all the GOP Presidential wannabes promising to do just that, entrepreneurs now have a tougher choice: deciding which messenger has the best shot at pulling it off.

By Amy Barrett in Washington

And if I'm elected...

BOB DOLE

- Supports major cuts in small-business regulation
- Advocates greater protection from estate taxes for family businesses passed from one generation to the next

PAT BUCHANAN

- Promises greater protection for U.S. small business against predatory foreign competition
- Seeks less government red tape and a moratorium on new government regulations

LAMAR ALEXANDER

- Backs cuts in capital-gains taxes to stimulate small-business investment
- Would revamp U.S. education system, giving more choice to parents, to boost job skills

STEVE FORBES

- Would eliminate capital gains and estate taxes for all businesses plus institute a 17% flat tax on income
- Wants term limits to encourage small-business owners to seek federal office

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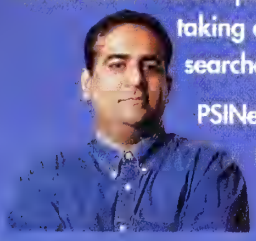

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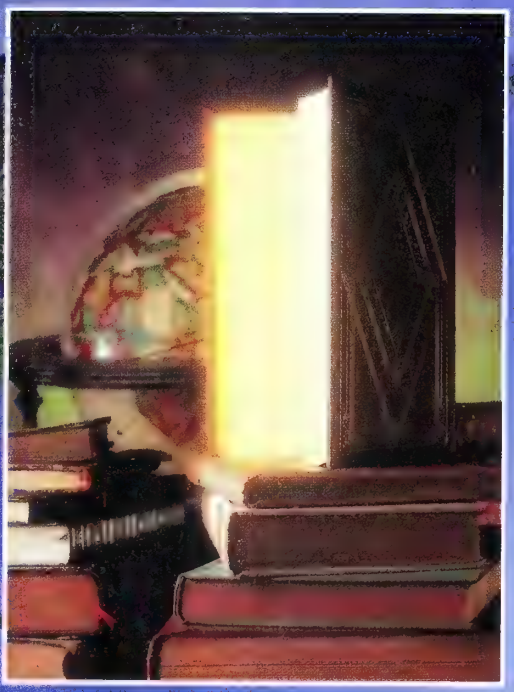

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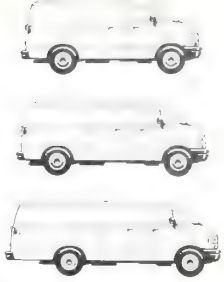

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Roundtable

FACE TO FACE WITH THE IRS

What's Washington doing to make life easier–or harder–for small business?

Small-business owners say the government agency that most affects their lives is the Internal Revenue Service. With tax-filing season under way, BUSINESS WEEK asked Internal Revenue Commissioner Margaret M. Richardson and National Federation of Independent Business President S. Jackson Faris to address independent contractors, auditing, and IRS efforts to make paying taxes easier for small businesses. Washington Correspondent Mike McNamee led the discussion.

TAX POLICY

Q: *Commissioner, you've paid a lot of attention to small business—creating the Office of Small Business Affairs and holding town meetings. Why?*

Richardson: We have an interest obviously in all our customers—large businesses and individuals and small businesses. For an awful lot of people—individuals—the tax system is simple and straightforward, despite what we hear. And large corporations can afford tax assistance. Unfortunately, many small businesses have to obey the same rules, keep the same records, as large businesses. So small business seems a natural place to focus our attention—to see what we can do to make it easier.

Faris: Small businesses are caught in the middle. People have to understand that a small-business owner is often one person who comes in the morning and fills in for whoever doesn't show up. You know, for every $100 a small business pays in taxes—all taxes, not just the IRS—we spend $386 in compliance.

Richardson: I'll do everything I can to try to make the situation simpler. Most of the issues that were addressed at the White House Conference on Small Business require legislative changes. Deductibility for meals, estate tax reform—those are issues that we're not really in a position to do anything about.

Q: *For many small businesses, one of the most vexing issues is how to classify workers. You've paid someone to work as an independent contractor, but the IRS says he or she is really an employee, so you owe payroll tax and have to withhold income taxes. Congress hasn't written a clear definition of independent contractors. What's the problem here?*

Faris: Business owners say, "Well, I had one IRS agent tell me it was O.K. to treat my workers as independent contractors, and then two years later another agent says it's no

FARIS & RICHARDSON: *At issue: Audits, ambiguities, and attitudes*

Richardson: The rules are fairly w set out. What has led to a lot of conc are the ambiguities of the 20 facto the common-law factors [that the uses to classify workers]. From an ministrator's standpoint, it would be b ter to have an objective standard, bri lines. The same is true for the busin side—when you know something w certainty, it makes it a lot easier.

Faris: Right now, they enforce the ru but everybody's fuzzy on the rule.

Richardson: One of the concerns we heard is that maybe our training m terials were biased against agents e classifying anybody as a contractor, recognizing there are legitimate stances when people aren't employe I undertook to review the materia We will be issuing revisions [in ea March] and we will present them you, Jack, for your comment. Anoth program that we'll be implementi right away will let you resolve class cation issues on appeal very quickly

Where we are caught is in so of the areas where the nature of t work and the way the people a

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Roundtable

used has changed over the years.

Faris: The fastest growing segment of the small business community is female, and the fastest growing part of that is operating out of their home. Fax machines, modems are changing the work environment. So what happens is you've got a person at home with her own computer contracting to do correspondence work—what we used to call a secretary.

Richardson: One of the things we did, Jack, was put out this publication for people like that, called *Starting a Business & Keeping Records*. This is really geared for new business owners and particularly those who might own a very small business.

Q: *Representative [Jon] Christensen [R-Neb.] has a bill to simplify worker classification. Does that work?*

Richardson: The biggest concern we have about that bill is that we'd like to have very clear, bright-line standards so that there are no ambiguities. And that bill does not address that concern.

We need to have rules that don't involve wholesale reclassification. Not that everybody has to be an employee, but that people are treated alike. I think one thing we need to do is sit down and talk with NFIB and Treasury to really see what we can do administratively.

Faris: Well, I think everyone who has a dog in this fight could fit around this table right here.

Q: *Besides taxes, many other rules are tied to employee status—benefits, age discrimination, overtime. When the IRS classifies workers, is it enforcing those?*

Richardson: No, we are really charged with administering the tax law, and that's it. My concern is that people are reporting their income accurately. What we know is, where you have withholding, as you do with employees, you have much higher levels of compliance. It is virtually 99%. Where you have information reporting, we have high levels of compliance. It is where you have neither that compliance drops dramatically.

Faris: There's an assumption that if you're an independent contractor, you haven't filed your taxes.

Richardson: Well, take the construction industry. We have complaints from people who pay their workers as employees and pay the benefits that come with that. And they are at a competitive disadvantage to people who underbid them, because they aren't paying the benefits that go with employee status.

Q: *The General Accounting Office suggests requiring businesses to withhold taxes on contractors' pay.*

Faris: Here's another 'let the entrepreneur deal with it' idea.

Q: *Mr. Faris, does the IRS have an attitude problem?*

Faris: This is the biggest complaint we get. When the agent comes in, the attitude is, 'You're guilty and the only question is, just how guilty and how much are we going to fine you.' Our people end up writing checks for $500, $1,000, $2,000 when they don't feel like they owe it. And you can't win because you're guilty until proven innocent.

Richardson: I think that we've gone a long way in terms of our own agents and fairness. I think that sometimes this is overstated, that people are presumed guilty until proved otherwise. It's certainly not company policy.

Faris: That is something the Commissioner has talked about. But it is extremely difficult for her, from her office on Constitution Avenue, to get the agent in Hendersonville, Tennessee, to go into a small business with t attitude of, 'You're an honest perso

How do you measure the success an agent? Do you measure how mu he helped and corrected a taxpayer, how much he collected in fines?

Richardson: That's a major challen The reward should be for getting right and helping taxpayers, as oppo to fines and penalty.

Q: *We hear complaints about "lifest audits"—the IRS calls them "econo reality audits."*

Faris: I got a phone call from a frie He said, 'Well, Jack, I'm going to you a copy of the questions the IRS as "How often do you take your wife dinner? Where and what is the av age price? How often do you take car to a car wash? Where and h much does it cost? Where do you b clothes? Where do you go on vacatio That's just going too far.

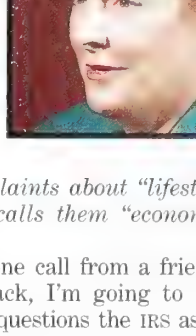
Richardson: We have one audit te nique, we call it looking at econo reality. It's good audit standar whether you are a private auditor o our business. We want to make su that we have an accurate reflection the taxpayer's income. What our age have been instructed to do is look the return and look at the facts a circumstances. If it appears that th may be underreported income, a some questions beyond what is on t face of the return. That is where t economic reality technique got name.

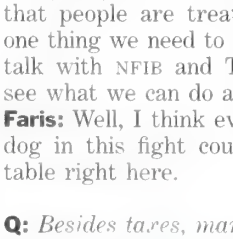
Faris: It's the level of intrusivene What we think is that you're spendi $100 to collect $10.

Richardson: I think we are trying make sure that people use proper au techniques. I can't tell you that son body doesn't do it wrong. But we trying to make sure that people tai their questions to the situation.

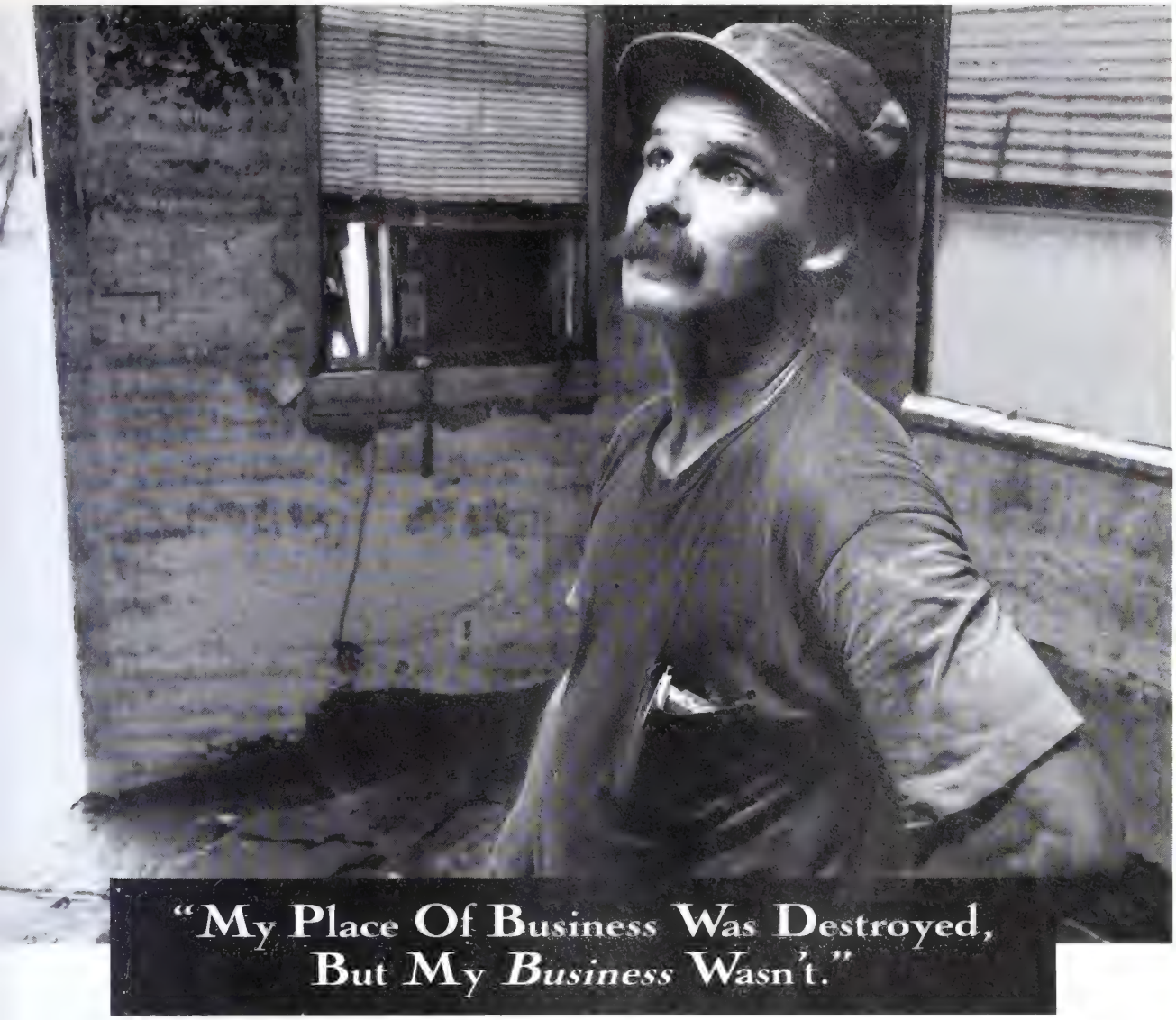
We're also trying to get our peo specialized training, so they can audi gas station one day, a bank the ne and an oil company the next. You au them differently. So we're working ha to understand various market segmen

WHO'S BEING UNFAIR? "I think sometimes this is overstated, that people are presumed guilty. It's certainly not company policy" — MARGARET RICHARDSON





WAYS AND MEANNESS "When the agent comes in, the attitude is, 'You're guilty and how much are we going to fine you.' And you can't win" — JACK FARIS



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TO B-SCHOOL OR NOT TO B-SCHOOL

Entrepreneurs find contacts, but little real-world help

One evening in 1994, Stanford University MBA candidate Ariel Poler and a few classmates were brainstorming for an Internet marketing project. As they pondered the burgeoning World Wide Web, Poler's idea was born: a company that would help businesses determine who's visiting their Internet home pages and what features they're using. By graduation time, Poler was president of Internet Profiles Corp.

If he hadn't attended Stanford's business school, Poler might never have come up with the idea. He certainly wouldn't have made the myriad contacts that helped him build a business that attracted Dun & Bradstreet Corp. as an investor. But what he didn't get at the prestigious B-school is at least as significant: a course on how to manage the daily challenges of a startup, from setting up payroll systems to hiring temps. Those things he learned by the seat of his pants. "The company would be in similar shape had I not attended a single class," says Poler, who expects his San Francisco company to break even by yearend.

OFF-THE-JOB TRAINING

Many would-be entrepreneurs are flocking to business school in the hopes of flattening the learning curve. But the stories told by budding entrepreneurs who earned their MBAs provide mixed evidence of success. To go or not to go? The answer depends on your personal expectations. B-school is a great place to build a network, gain some valuable tools, and fine-tune a business plan. But no program is going to teach you how to build a business from scratch or juggle tasks such as hiring and firing people and weathering cash crunches.

BLOOD AND GUTS. What's more, the cost of B-school can burden the entrepreneur and the new enterprise with enormous debt. Bottom line: If you have the time and can afford the average $40,000 tuition bill, B-school can make you a savvier entrepreneur. But if your parents aren't footing the bill and debt is a concern, entrepreneurs are probably better off learning on their own.

For those who decide to give B-school a try, there are plenty of choices. Schools are responding to growing demand and rolling out more entrepreneurship courses: The number of schools offering at least one such course has doubled since the early 1980s, to about 400. But business schools aren't encouraging MBAs to launch companies upon graduation. Instead, they suggest MBAs rack up some experience in a desired industry first. "We teach that it is not wise to come immediately out of school and start a business," says Thomas J. O'Malia, director of the entrepreneurship program at the University of Southern California's B-school. "A small percentage do [start their own businesses], but the success rate is much lower."

Those who venture into business after B-school are often surprised at how ill-prepared they are for the harsh realities. Professors teach how to manage an existing company, not how to build a new one. It's the nitty-gritty tasks such as putting together health plans and writing employment contracts that ultimately throw newly minted MBAs. "The actual process of operating a company is not something for me, at least, that could be duplicated through any classroom experience," says Robert J. Jordan, president of Chicago-based publisher Red Flash Internet and a graduate of Northwestern University's J. L. Kellogg Graduate School of Management. Most entrepreneurs concur: B-school did not prepare them for the blood and guts of starting a business.

Gregg Latterman says B-school might have even extinguished the fire that got his business going in the first place. He knows, because he's now juggling a f time course load at Kellogg while r ning AWARE Records, a small compa that produces CDs featuring unsigned gional rock bands. He decided to go b to school for the credentials after he his company off the ground. "If I t the business-school approach, there is way in hell I would have done it," s Latterman. "They can teach you so useful tools, but in most cases you h to throw the rules out." Latterman st ed his business without any sort of fin cial plan or in-depth market resear He just jumped on his idea quickly a figured out the rest as he chugged alo That's hardly the B-school way.

Even Latterman, though, would c cede that B-school is a gold mine of n working opportunities. MBAs meet pot tial business partners, employees, clie

> "The company would be in similar shape had I not attended a single class."
>
> — ARIEL POLER (Stanford) At an Internet Profiles meeting in San Francisco

l investors through school. Many MBAs ll call former professors for advice, l some profs sit on their boards. It's o a place to meet entrepreneurs, ought in by teachers, and hear war ories. "So many of these entrepren-rs were just ordinary people, and it nd of demystified the process," says Jay Check, a University of California at Los Angeles grad and co-founder of Santa Monica (Calif.)-based Cape Enterprises, which makes a device that removes unwanted hair.

Some schools also help raise capital (though the most common way is still through friends and family). Some host business-plan competitions, judged by local entrepreneurs and venture capitalists, that award small sums. Babson College graduate Michael A. Healey, for example, was two weeks late paying the first month's rent on his new office for PC-Build Upgrade Centers, a computer-hardware service company in Needham, Mass. The school's $3,000 Douglass prize saved his lease. Chicago-based Jordan received $5,000 from Kellogg's venture fund. But that was nothing compared with the $150,000 he got from an "angel" who sat on the judging panel.

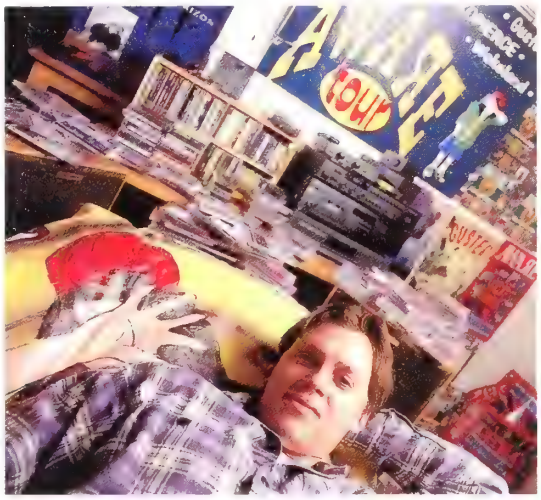
FREE CRITIQUES. An enterprising duo at the Wharton School raised about $150,000 from classmates for their invention. Brian E. Le Gette and Ronald L. Wilson II met at the University of Pennsylvania and designed a sleeker version of earmuffs. By the start of their second year, they had a prototype for their fleece-lined product. They polled fellow students for market research and generated so much enthusiasm that other students approached them to invest. The money helped them start Gorgonz Group Inc., a Chicago-based company that markets EarGear. They hope to be selling $1.5 million worth by April, 1997.

It's rare that classmates make out checks to support a new business, but plenty are willing to critique a business plan for free. In many cases, questions and criticisms from fellow students and professors are among the most valuable lessons a future entrepreneur learns from school. Healey says it's easy to find critics at B-school. "There are lots of people who shoot holes in your idea, and you need that," he says. "To shoot a hole in a piece of paper doesn't hurt you."

Sure, you can make B-school pay off for your new business. It's just a question of whether it's worth shelling out the thousands of dollars over two years—and putting your burning idea on hold.

By Lori Bongiorno in New York

> **"If I took the business-school approach, there's no way in hell I would have done it....You have to throw the rules out."**
>
> — GREGG LATTERMAN (Northwestern)
> Founder of AWARE Records in Evanston, Ill.



AN YOU LEARN ENTREPRENEURSHIP IN SCHOOL?

Some MBA programs offer small-business specialties. Here's a sampling:

CHOOL	LOCATION	ANNUAL TUITION*	HIGHLIGHTS
ABSON	Wellesley, Mass.	$20,000	Entrepreneurial leadership is theme of first-year program
ARVARD	Boston	22,700	Makes one of largest investments in entrepreneurship research and course development
CLA (Anderson)	Los Angeles	16,658	Entrepreneurship Assn. is largest student club at school; hosts a variety of activities
NIVERSITY OF ENNSYLVANIA (Wharton)	Philadelphia	21,978	The Snider Entrepreneurial Center's ties to the small-business community create opportunities for practical experience
NIVERSITY OF SOUTHERN ALIFORNIA	Los Angeles	18,596	Need four entrepreneurship courses for a major; mentors available to help students with business plans
NIVERSITY OF TEXAS	Austin	10,654	Two Moot Corp. competitions per year award money to students with best business plans

ATA BUSINESS WEEK

* FOR NON-RESIDENTS

MOBILE OFFICES: WHEELS OF FORTUNE?

MOV's high-tech minivan sounds like a good idea. But so far, sales are slow

In what seems like another era entirely, Charles E. Lippert recalls setting up an office in the back of a mini-motor-home in the early 1970s. At that time, he owned a chain of drugstores in Michigan towns. His secretary, "Smokey," drove from one outlet to another while he tended to paperwork at a desk in the back.

ROAD WARRIORS

But it wasn't until 1993 that Lippert found somebody who had taken the same quirky idea and really run with it. A chance meeting with an affable dreamer and inventor by the name of George Landry put the entrepreneur into the business of selling Landry's mobile office vehicle (MO-V).

It sure sounds like a product for our times—a hip idea for today's on-the-move knowledge worker in search of a truly virtual, truly mobile office. It's a $35,000 minivan loaded with ergonomic furniture and high-tech gadgetry linked to the outside world by cellular communications. Lippert, 55, foresees a sizable market for offices-on-wheels—as more companies coax employees out of office towers and onto the road. "This product is a substitute for real estate," says Lippert, chairman of Mobile Office Vehicle Inc. (MOV) in Zeeland, Mich. "Many people can work much more effectively out of a mobile office than in a fixed office or the front seat of their car. There's enormous potential."

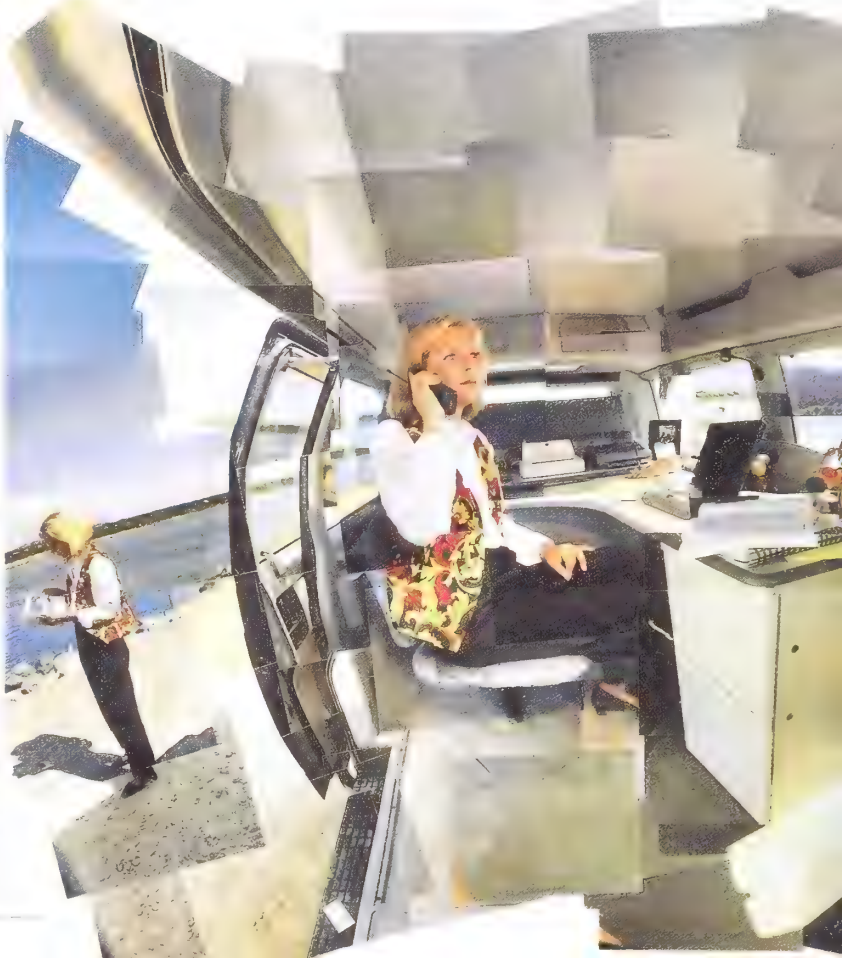
"NO-BRAINER." Like many an entrepreneur with a hot idea, however, Lippert is facing a classic dilemma: How do you turn potential into reality? It's not enough for an idea to be good. Entrepreneurs have to sell it to others. So far, Lippert is having a bit of trouble with that. After selling 25 mobile offices in 1994, his first full year of operation, he sold 75 in 1995—far short of his goal of 1,000. And there's no chance he'll meet his earlier hopes of selling 5,000 to 10,000 vans in 1996. So privately owned MOV is still in the red, on revenues of about $2 million. Because he has kept overhead low, however, Lippert can keep MOV going for years.

What's the hitch? "The paradigm shift has been slow to occur," Lippert says in flawless 1990s patois. "To me, the product is a no-brainer. But I cannot understand for the life of me why it's been so difficult for people to accept."

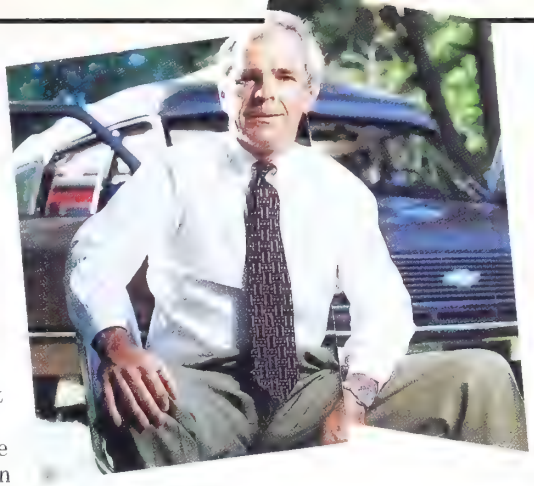
Although Lippert's faith in the product is as strong as Bill Gates's belief in Windows 95, he hardly fits the image of a risk-taking entrepreneurial visionary. Son of an appliance-store owner, he's a conservative Midwesterner—more like someone who might become a small-town pharmacist because it seemed to promise a comfortable life.

That's exactly what Lippert did after graduating from Ferris State University in Big Rapids, Mich., in 1963. I five years, he compounded liquids a made ointments—until buying his fi drugstore, in Lowell, Mich., on his 2 birthday in 1968. Using money b rowed from relatives and cashing in own stock-market investments, he beg to build what would become a 13-st pharmacy chain over the next 17 yea It was during this time that Lipp began using a 25-foot motor home w a bolted-down desk and a chair held place by a bungee cord to make rounds of his stores.

After selling out to Rite Aid Corp 1984, Lippert bought out of bankrup a $4 million company that made tab tops. He met Landry, the inventor



MO-V, in early 1993. dry's notion of the duct was generated his own epiphany: was a tool-machine sman in the 1980s n he slammed on his brakes to avoid hit- a child. An open can Diet Pepsi spilled over documents. "I said: ere's got to be a better to work more effi- tly when you are out he road,'" he recalls. he inventor and the repreneur collided when dry was hoping to buy sed saw from Lippert to the desks for his mobile e. "The moment I saw prototype, I recognized the latent ential of it," says Lippert. "I said: w, this is neat. This is going to be ething.'"



ENTHUSIASM

"The moment I saw the prototype," Lippert declares, "I recognized the latent potential of it. I said: 'Wow, this is neat. This is going to be something'"

D BATTERY. He leased the patent n Landry, hired him as his first em- ee, and sank $1 million into research development before creating a net- k of partners to launch the prod- If it hasn't speeded the move to- d the virtual workplace, the MO-V a product of a virtual company. pert buys the gutted cargo vans—usually Chevy Astros—for $17,000 a pop from General Motors Corp. and then sends them off to subcontractors who convert them into MO-Vs, using office equipment made by 10 other suppliers. With just six employees, Lippert needs to sell a mere 10 vans a month to break even.

The first one was sold in 1994 to Jeffrey S. Brown, a New Hampshire agent manager for U.S. Cellular Corp. Now self-employed, Brown has put 30,500 miles on the van. "It changed the way I work," he says. "I can invite clients in, sit down with them, fax their orders to the office, and be done with it." His biggest beef: The battery went dead when he forgot to turn off his fax one night. MOV has since added a backup.

ONE FOR THE ROAD: *A very souped-up Chevy Astro*

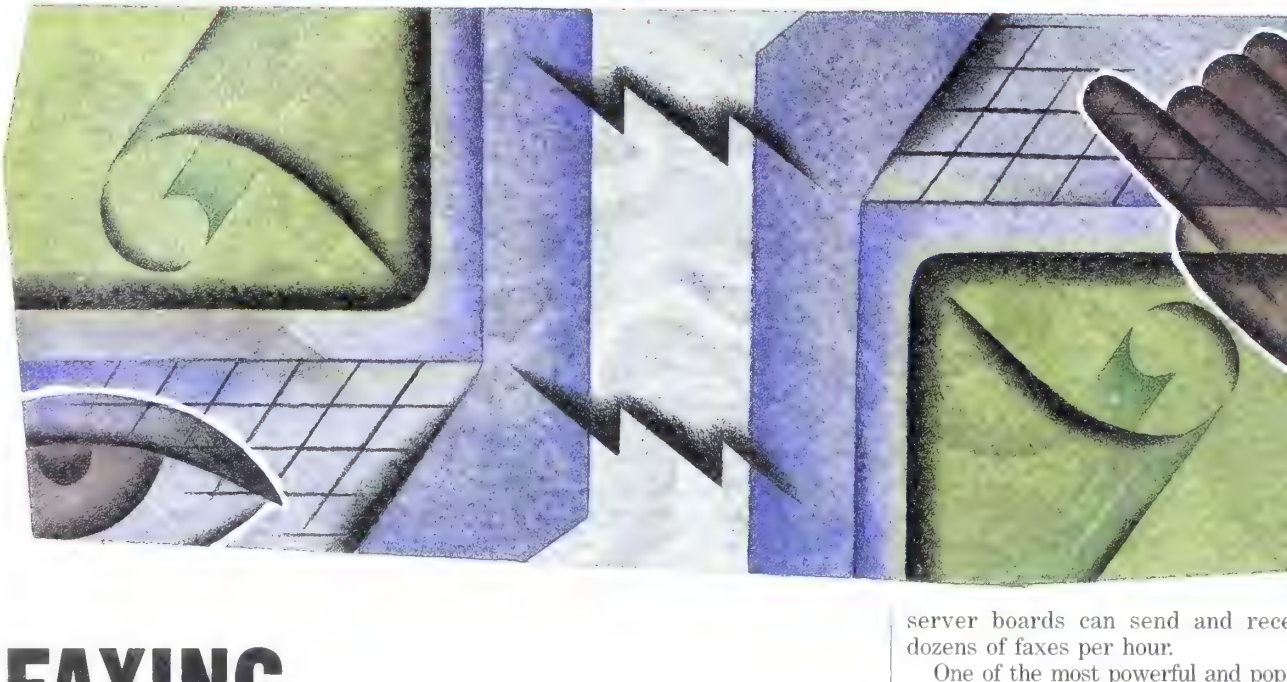
Finding more buyers has proved a lot harder. "We thought there were 6 million Jeff Browns, but it turns out there aren't," says Dayna Beal, vice-president for operations. "We discovered we have to create the market."

DRIVING MR. DOLE? How does a small-business owner with limited resources do that? For one thing, Lippert is trying to tighten the marketing focus to emphasize insurance adjusters, real estate brokers, and sales reps who are already on the road. St. Paul Fire & Marine Insurance Co. recently bought four of the vans for its personal-insurance reps. "We are trying to untether them from an office," says Richard F. Dryden, a St. Paul manager. "Once they leave their home in the morning, they can stay in the field all day. They won't have to run to the office to access our claims system."

Lippert is also teaming up with other companies that are trying to get a piece of the virtual workplace. When McCaw Cellular Communications Inc. launched a more efficient cellular network for high-speed transmission of data, the company paid to retrofit two vans with its cellular equipment and sent them to the world's largest computer conference to show off its new technology—and MOV's product. MOV also joined Canon Inc. on a 12-city virtual-office van tour to help Canon promote its mobile electronics. The company did the same with AT&T Global Business Solutions.

Also, Lippert has used his contacts to persuade Senator Bob Dole (R-Kan.) to use an MO-V for his Presidential campaign. "We think that will bring us some publicity," says Lippert. "It's just a matter of people trying to figure out how it can be used." It's also a matter of Lippert convincing them it's a good idea.

By John A. Byrne in Zeeland, Mich.



FAXING TO THE MAX

New gear can turn your PC into a power tool for messages

Are E-mail, the Internet, and the World Wide Web making the fax machine, that old electro-mechanical workhorse of the Information Age, obsolete?

Hardly. While the PC revolution is certainly spawning powerful new forms of communications, it's also making faxing amazingly easier, more economical, and more effective. It's not just that fax machines are getting large infusions of computer memory and processing power. PCs themselves are getting substantially better at sending and receiving faxes. And any business that sends or receives more than a few faxes a day should check out the latest PC-based fax equipment—what the trade calls enhanced fax. Many of the dozen or so manufacturers in the business are aiming new gear precisely at small businesses (box).

PAPER CUTS. The basic idea is that by equipping a standard PC with add-in hardware and software, it can become a powerful fax server—a fax machine on steroids. Like the fax modems that come with many computers today, but with much greater capacity, the fax server lets you fax documents from a PC without printing them on paper first—a big time-saver.

But fax servers do much more. Fax boards, starting at around $800, are powerful computers within a computer. With their own microprocessors, memory, and high-speed modem chips, they perform all of the nitty-gritty communication chores that make faxing work. The PC's processor, meanwhile, can get on with higher-level tasks, such as preparing and attaching personalized cover letters to a newsletter and getting copies sent to a long list of fax numbers. This way, even an old 386-based PC with a few server boards can send and rece dozens of faxes per hour.

COMMUNICATIONS

More than Just the Fax

PC-based fax servers can help a small business communicate better by:

LAN FAXING Sends and receives faxes via a local area network

FAX BROADCASTING Automatically sends a document to any number of recipients, complete with personalized cover letters

FAX ON DEMAND Lets customers dial in for automatic delivery of product brochures, menus, or other documents

DATA: BUSINESS WEEK

One of the most powerful and pop uses of such setups is "fax on dema which allows people to dial in and se documents for automatic delivery their fax machines. Documents can anything from product brochures to ternal sales reports and memos direc to workers in the field. An Atlanta c pany called Life-Fax runs a fax-on-mand service that most of its clie may never get to see in action: company stores in its server their liv wills that, when the time comes, doc can have faxed to them anywhere the world. Life-Fax u clients to keep its car their wallet, so its number is alw handy.

For Thomas M. Jozwik, president founder of Wikman Publishing Inc St. Louis, fax-on-demand is the basi his business. His 486-based PC, equip with a 1-gigabyte disk drive and plu cards that guide callers with synt sized-speech instructions, runs three arate services. Menu Fax sends cal menus from any of about 135 a restaurants. Business Solutions Bur provides descriptions of the servi available from local consultants and c puter specialists. And Computer S tions Bureau distributes technical d about hardware and software produ

Callers pay nothing, but Jozwik lects a per-inquiry fee of $2 from e outfit that distributes information his server. First-time callers regis for a personal entry code by provid their name and other information, w allows Jozwik to send his clients w

calls "daily love reports"—fresh sales ls, essentially. With one inbound and outbound phone lines, his fax serv- nandles about 600 calls a day.

At the SmithKline Employees Fed- l Credit Union in Philadelphia, a fax ver acts as an "electronic storeroom," ting down on printing costs. The dit union's customers can dial in und the clock to request any of 23 uments and forms, including those ded to apply for loans or open new ounts. Tom J. Swierzy, president and , says he bought the system—a 00, self-contained QuadraFax server n Brooktrout Technology Inc.—over telephone, and "we installed it our- ves." Staffers load new documents the unit either by faxing them to it r a phone line or by sending a word- cessing file from a PC. Usage has n a little slower than he expected, vever: "It's the kind of thing where have to change people's thinking."

HT SHIFT. Fax servers are getting arter every day. A handy feature t has become standard: the ability collect faxes from PCs all across a work and send them at night, when ne rates are lowest. Some units can programmed for so-called least-cost ting, in which the server chooses n a menu of different telephone ser- es depending on where the fax is go- Servers can create virtual fax mail- es for each person on a network, ing their faxes until they're ready to w them—either on-screen or—most en, because it makes reading easi- -printed on paper. There's even a duct, from Ibex, that lets people re- ve documents from a Web server ng a fax modem. The system auto- tically handles the translation from Web's peculiar HTML format.

The payoffs from computer faxing be substantial. Preparing and faxing etter, say, directly from your PC can e as little as a 10th of the time ded to manually print and fax it. even with a volume of only 10 faxes ay, a $3,000 server setup can pay itself in months. The savings com- ed to express mail delivery can be stantial, too.

So don't give up on faxing just be- se the Internet's getting all the ss. Richard D. Shockey, president of software maker Nuntius Corp., reck- that 95% of all adult workers in U. S. have easy access to a fax ma- ne—compared to only a few million o are quickly reachable through E- il via the Internet. Besides, a paper ument, even if it has just stuttered th from an old fax machine, has a npelling physical presence that it will e a long time for E-mail to match.

By John W. Verity in New York

'HEY, WHY CAN'T I DO THAT, TOO?'

The way Maury Kauffman sees it, credit for the current boom in office PC faxing goes largely to Symantec Corp.'s Delrina Group. Kauffman, a consultant on faxing who runs the Cherry Hill (N. J.)-based Kauffman Group, reckons Delrina has shipped more than 12 million copies of its consumer-oriented WinFax software. Used with any fax-modem, it lets IBM-compatible PCs send and receive faxes. "Now," says Kaufmann, "every 16-year-old is sending faxes from his PC, and the parents go into the office and say, 'Hey, why can't I do that, too?' "

They can, but they shouldn't trust serious business faxing to a mere PC-with-fax-modem setup. That's because with a fax modem—whether it costs $50 or $200—the PC's main processor quickly gets bogged down doing all the hard work. Even a costly Pentium-based machine may not be able to send or receive more than about two faxes at the same time. A lot of faxes will fail to go through if you have to rely on the PC's processor, says Peter Davidson, head of Davidson Consulting in Burbank, Calif. Plus, modems can't cope with the many incompatibilities that still lurk in fax communications, especially overseas.

What you need in the office, then, is more sophisticated fax-server hardware. Companies such as Brooktrout, PureData, and the GammaLink subsidiary of Dialogic produce fax boards that plug into IBM-compatible PCs and perform all sorts of tasks without taxing the machine's main processor. These boards sell for anywhere from about $750 to $4,000, depending on their processing power, modem speed, and the number of telephone lines they can service at one time.

You'll probably want to buy this gear through a professional, who can help you set up your fax server and connect it to the office network. The dealer that first installed your network is probably the best bet; fax servers are getting to be familiar items in the PC networking business. There's a wide range of fax software to choose from, but thanks to strong industry standards all varieties will work with just about all server boards. Suppliers of fax software, which is priced at around $800 per telephone line, include Nuntius, Ibex, and Copia.

If you're not yet running a network, a self-contained fax server may be worth looking into. There are several all-in-one fax-server packages coming on the market for small businesses. For instance, Brooktrout Technology Inc.'s QuadraFax, listing for $3,995, contains its own PC circuitry and can answer as many as 300 fax-on-demand calls a day. With a $595 software add-on, QuadraFax can broadcast personalized faxes to as many as 1,000 destinations. And PureData Ltd. in Richmond Hill, Ont., has a $1,400 server-board kit that it plans to sell through mail-order catalogs and the Internet Shopping Network, an electronic mall. Used with a $1,000 PC, this server can handle as many as 30 fax sessions an hour.

And remember: Once you've got a fax server installed, your 16-year-old will probably be asking, "Hey, why can't I do that, too?"

By John W. Verity

Basic Equipment

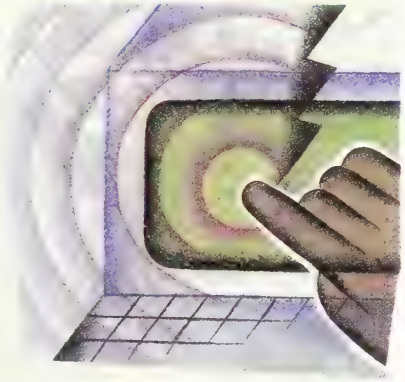
What you'll need to get started in enhanced faxing:

PC A 386-based model or better, with minimum of 500 megabytes disk storage

FAX BOARD Contains a microprocessor, memory, and one or more modems

VOICE BOARD Prompts callers to use touchtone keys to order faxes on demand

FAX SOFTWARE Available in several varieties, generally compatible with all fax boards



NO STAFF, GREAT HOURS—JUST A MAN AND HIS MACHINE

How a headhunter downsized his payroll to one

Stanley Herz has created a lean, mean company for the 1990s. It consists solely of himself—and his computers.

Faced with a slumping business during the recession of 1990-91, he fired all seven employees of his executive-search firm in Stamford, Conn. Then, he moved the business to a small office in Somers, N. Y., a few miles from his house, and refocused on top executives at smaller companies rather than the shrinking corps of middle managers.

He now wears jeans to work, chooses his own hours, and says profit levels are approaching those of the heady 1980s.

His secret? The huge amount of information he's able to tap into online and on CD-ROMs.

Finding potential clients or job candidates no longer requires a research staff to sift through reference books and type names into a computer. It takes Herz just a few hours to sort thousands of companies and download addresses and the names of executives straight into a word-processing program. And it's a task that can be done at any time of day or night. "My online services, CD-ROM, and in-house databases don't know it's after 5," says Herz, a 53-year-old former financial manager at Xerox Corp. who retains his Brooklyn accent.

WHOM TO RAID? Herz is a living example of how technology can hurt employment levels but boost efficiency. He's also proof that a small-business owner using a few relatively cheap information tools can compete with much larger firms. As with the big shops, clients pay Stanley Herz & Co. a flat fee to find candidates for an executive opening. If Herz places a candidate, he also gets a percentage of a sum equal to the person's first-year salary—typically 30%.

DATABASES

The key, then, is figuring out which companies he should raid and which candidates he should target. He relies mainly on two programs: Direct Access, a Dun & Bradstreet Corp. online service, and the Register of Corporations, Directors and Executives, a CD-ROM from Standard & Poor's Corp. (which is owned by BUSINESS WEE parent, The McGraw-Hill Companie These programs allow him and his t temps to sort companies by indus size, and location and determine wh ones are sensible targets for eit raids or client pitches. "The resu Herz says, "is a smaller list of m likely clients."

NO AVOIDING ERRANDS. He also uses line services and a research firm Omaha called InfoAccess, which fa company profiles to its customers, run through financial data on com nies. If Herz is on the phone wit candidate or a client, he of looks up information while talks. "I get the sense he has go database of thousands of people," s Paul Bedrin, president of Allied Stra Office Products in Hasbrouck Heig N. J., and a client. Another plus, s Bedrin: "When I call him, I know not going to be pushed off to some nior person."

Technology has d more than cure Herz's ing balance sheet. It changed the rest of life, too. He eats lunc home rather than in bl downtown Stamford can go back to the of after dinner. He can on call for an emerge house visit from plumber and can t care of nagging erra when there are no li "Nothing like a hair

PRIVATE DINING: *Herz considers lunch at ho one of his new perks*

dentist visit, or oil cha at 10:30 a.m.," he says

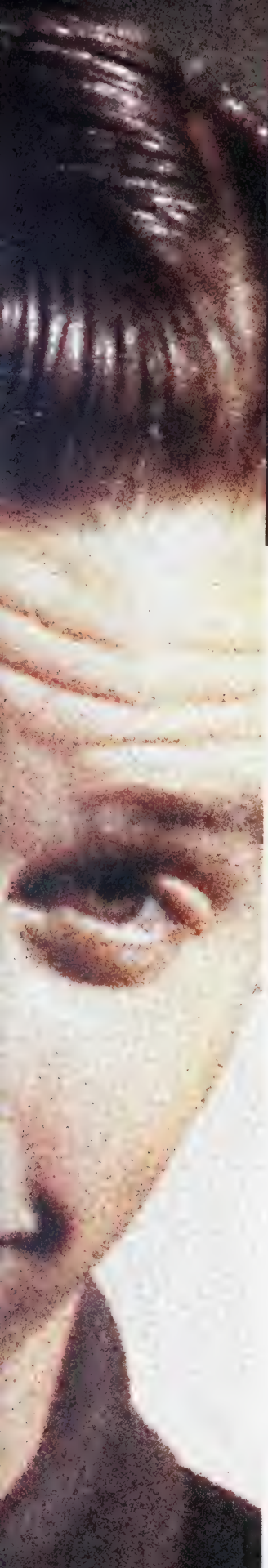
Those are just the mediate changes. The one could come in a years if he and his decide to move South escape the snow. H will pack up his ent business—that is, computers, mode disks, and himself— pick up wherever he off. Not bad for a who, five years ago, commuting an hour an half every day to pres over a dying business.

By David Leonha in Somers, N

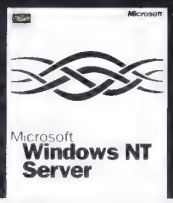
Information at Your Fingertips

PRODUCT/SERVICE	SUPPLIER/COST/PHONE
DUN'S DIRECT ACCESS An online service with monthly updates of corporate and industry profiles.	Dun & Bradstreet Information Services; $95/year plus costs 800 624-5669
REGISTER OF CORPORATIONS, DIRECTORS & EXECUTIVES A CD-ROM set profiling 55,000 companies, boards, and management.	Standard & Poor's; $995 800 221-5277
SELECTPHONE A CD-ROM phone book of resident and business numbers.	ProCD; $99 800 992-3766
INFOACCESS Provides, via phone or fax, reports on any of 14 million companies.	American Business Information Inc. $4.95/month, $3/report 800 808-4636

DATA: BUSINESS WEEK



Deciphering the easiest way to network your Windows-based PCs will require, among other things, a keen sense of the obvious.



WINDOWS NT SERVER IS THE SIMPLEST, MOST PAINLESS WAY FOR SMALL BUSINESSES TO NETWORK WINDOWS-BASED PCS.

Many business decisions require large amounts of careful analysis, research, and brain power. Others require considerably less.

Take the issue of how to network your Windows®-based PCs: Windows NT™ Server operating system is the obvious choice, because it's Windows. It's so perfect for growing companies that already thousands of small businesses are using it.

Why? It provides safe central storage of your files and runs the applications that run your business. Installation can take less than an hour, and Windows NT Server is smart enough to figure out what hardware you already have. Windows NT Server also allows employees working out of the office to connect to your network at any time, from anywhere. So they can access information and files just like they were at their desks. And with built-in support for the Internet, your company's World Wide Web page will be up and running in no time.

	Windows NT Server	NetWare
Everything you need in one box	√	no
Familiar Windows environment	√	no
Street price for a 10-user server*	$999	$1622

In case you're thinking cost, the choice is just as clear. Windows NT Server costs one-third less than NetWare® Windows NT Server. Who says there are no easy answers in business? For store locations and seminar information, call (800)60-SOURCE, Dept. A025.

Microsoft

WHERE DO YOU WANT TO GO TODAY?™

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A ZONING NIGHTMARE ON ELM STREET

Home business? The neighbors may raise hell

Zoning regulations were the furthest thing from her mind when Georgia Patrick decided to move her media-consulting business from Washington, D. C., into a barn on her 29-acre parcel in western Maryland. Her husband had been running his land-conservation business, Windstar Wildlife Institute, out of the same barn for years without any problems, and her firm, the Communicators, had only one assistant working on-site. The rest of her employees were already telecommuters. The nearest residence was so far away, she says, "you'd need field glasses" to see it. She didn't expect any complaints.

HOME OFFICE

Yet neighbors did complain, saying they just didn't want a business in the neighborhood—and invoked an ordinance from the 1950s that prohibits a nonfarm enterprise from operating in an agricultural zone. Patrick eventually won the battle, but it consumed about two years of her life and cost her nearly $300,000 in legal fees and lost business.

Whether you are just establishing your home business or have been operating trouble-free from your spare room for years, you should know the zoning restrictions that apply to you. Most towns have laws on the books limiting the scope of home businesses, but they are rarely enforced until the neighbors start demanding action. "Once the neighborhood ignition system is lit, you are really in trouble," warns Paul Edwards, co-author of *Working From Home* (Tarcher/Putnam Publishing, $15.95).

To find out where you stand, visit town hall and check the zoning map. Some municipalities don't have zoning regulations at all, and others have updated their laws. But many have ordinances on the books to prevent businesses such as auto-repair shops or beauty salons from eroding the residential quality of neighborhoods. The codes vary widely, but they generally prohibit home businesses from generating traffic, posting signs, using on-street parking, hiring more than one employee, or using too high a percentage of floor space.

Also check other restrictions that might apply to where you live. Planned communities and condominium boards, for example, have rules that are frequently more restrictive than local zoning. They may even prohibit home businesses altogether, says Cora Jordan, author of *Neighbor Law* (NOLO Press, $14.95). Some subdivisions establish special covenants.

"The best defense is good neighbor relations before you start," says Edwards. Before you launch your business, tell neighbors about your plans so that they'll have an idea of what to expect, and you can resolve concerns early. Explain how having someone home during the day will improve security for everyone. Offering to meet neighbors' repair people or fill in for a late babysitter, for example, can really boost relations, says Rhonda Abrams, a consultant to small businesses and founder of the Idea Cafe, a new site on the World Wide Web for entrepreneurs (http://www.up.ideacafe.com). "If you make yourself useful to your neighbors, you are going have an ally," she says.

If your neighbors find your busin intrusive, there may be ways you minimize its impact. Most complai are triggered by traffic, noise, and l of parking. If you get a lot of deliver consider using a mail-receiving serv such as Mail Boxes Etc., says Edwar If necessary, you could share commer office space with other people who w predominantly from home and h meetings or receive mail there, sugge Jordan.

"TWILIGHT ZONE." Once your neighb complain and the local bureaucracy ki in, your job gets tougher. If the to gets an injunction against your use the home for a business, you have comply or face contempt of court. Me time, you can try to have the zon laws changed. Local authorities may amenable, particularly if the code see outdated. Having neighbors' support be essential to your cause. You also n be able to get a variance if you show your business does no harm the neighborhood and that relocat would deprive you of your liveliho says Edwards.

Ideally, you should research th matters before you begin working fr home. If you are relocating, along w checking zoning, make sure your ne door neighbor isn't the kind of lo crank who constantly brings complai to town officials.

The fact is, most towns' zoning co are in conflict with home-based ent preneurship and can create a "twili zone" for the unwary. With care, thou you can control the outcome.

By Amey Stone in New Y

Ways to Ward Off Zoning Problems

- Keep the lines of communication open with neighbors so they'll complain to you, not the city.
- Make sure neighbors see the security benefits of having someone at home during the day.
- Use a mail-receiving service to reduce the number of delivery trucks on your street.
- If necessary, rent an office part-time as a place to hold meetings, or allow employees to work from home.
- If there is a complaint, seek a variance. Demonstrate minimal impact and neighborhood support and you may win one.

DATA BUSINESS WEEK

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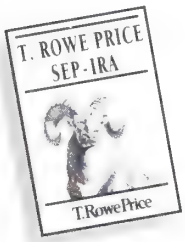

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DRIVEN BATS

If, in a moment of entrepreneurial fervor, you are even considering the idea of starting a business that involves the transportation of bats, you might just make yourself aware of Subpart J of 57 Federal Regulations 27108, which sets Standards for the Humane and Healthful Transport of Wild Mammals and Birds to the United States. The regulations, the follow-up to a lawsuit that was brought against the U.S. Interior Dept. for its failure to regulate bat traffic, were promulgated on June 17, 1992. These rules have drawn some high-pitched shrieks from the reinventing-government types in the White House.

"(b) No more than one sloth, bat, or flying lemur (Cynocephalidae) shall be transported in a primary enclosure. However, a mother and her nursing young being transported for medical reasons, an established male-female pair, a family group, a pair of juvenile animals that have not reached puberty, or other small groups of animals that have been habitually housed together may be shipped in the same primary enclosure.

(c) A primary enclosure used to transport sloths, bats, or flying lemurs shall be large enough to ensure that each animal has sufficient space to move freely and in a normal manner and shall have a wide perch, bar, or mesh of suitable strength fitted under the top of the enclosure and spaced from it in such a way that the animals may hang from it freely in a natural position."

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- ❑ Other_____

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7. Are you:

❑ Female ❑ Male

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- ❑ Some High School
- ❑ High School Graduate
- ❑ Some College (no diploma)
- ❑ College Graduate
- ❑ Some Post Graduate
- ❑ Graduate Degree

9. Do you work primarily from your:

- ❑ Home
- ❑ Office

10. If you primarily work in an office, do you also work for your job at home?

❑ Yes ❑ No

11. If yes, how often do you work at home for your job?

- ❑ Often (several times each wee
- ❑ Frequently (at least once per week)
- ❑ Sometimes (two to four times/month)
- ❑ Occasionally (Less than once per month)

12. Approximately how many employees are there in your entire company?

❑ 1	❑ 50-99
❑ 2-4	❑ 100-499
❑ 5-9	❑ 500-999
❑ 10-24	❑ 1,000 or more
❑ 25-49	

13. Please indicate if you have ar of the equipment listed below in your home or office?

	Home	Off
Personal Computers (Desktop or Workstation)	❑	❑
Personal Computers (Laptop or Portable)	❑	❑
Modem	❑	❑
CD Rom Drive	❑	❑
Networking Hardware/ Software	❑	❑
Copiers/Duplicators	❑	❑
Facsimile/Fax	❑	❑
Typewriters	❑	❑
Cellular phones	❑	❑
Pagers/beepers	❑	❑
E-mail system	❑	❑

14. Where do you shop for your office supplies?

- ❑ Staples
- ❑ Office Depot
- ❑ Office Max
- ❑ WalMart
- ❑ Wholesale/Warehouse Club
- ❑ Local Stationary Store
- ❑ Other _____

03/18/96

TREPRENEURS

THE MAN IN THE DISK DRIVER'S SEAT

ying Conner puts Seagate's Al Shugart squarely on top

alk to Silicon Valley executives, and they'll tell you Seagate Technology CEO Alan F. Shugart is one of a kind—certainly the only one ong them running his pet for Conss. "The nation is going to the dogs," ugart declares, "and I don't know at else to do about it."

He's trying to get nest, his Bernese untain dog, on the lot to give disintled voters a y to vent their lings. There are nest buttons, a npaign committee E, for Friends of nest) that has sed $3,000, and ss releases—the est bemoaning the gfighting" among publican candies. Shugart even s up suppliers. "I k to him every few eks about that nn dog," laughs aptec Chairman n G. Adler, who ghed up $500.

Welcome to the beat world of Al ugart, the computer industry's diskve king. At 65, s at his zenith. On o. 2, he acquired al Conner Peripherals Inc., king Seagate by far the . 1 disk-drive maker, with % of the $25 billion industry, from 19%. The deal gives agate, already dominant in workstan and mainframe drives, the top spot the mammoth PC market, from which etreated five years ago. "Now Al's as in disk drives as Bill Gates is in softre," says Albert S. Hoagland of the stitute for Information Storage Technology at Santa Clara University. "He casts a tremendously wide shadow."

Wide and growing. The merger gives a huge boost to Shugart's plan to transform Seagate, already blessed with more profits and cash than all its key rivals combined, into a diversified "data technology company." Conner's Arcada software unit should boost Seagate's software sales to nearly $200 million this year, and its $235 million tape-drive unit makes Seagate even more of a one-stop shop for big customers. Coupling Conner's parts-making operation with Seagate's growing capacity—it's spending $950 million on expansion this year, up from $364 million in 1995—means the company will be less dependent on suppliers for scarce components: It will be a supplier itself. Says Larry R. Hootnick, former CEO of drive maker Maxtor Corp., now with Mac cloner Power Computing Corp.: "Nobody has Seagate's muscle."

QUIRKY: *Shugart's antics include running his dog for Congress*

It's the capstone of a remarkable career. Shugart joined IBM in 1951, the day after he finished college. Ten years later he was the star of a nascent industry, leading development of the precursor to today's hard drives. But in 1969, weary of Big Blue's bureaucracy, he left for Memorex Corp., taking along some 200 engineers. Recalls James N. Porter, a market analyst with Disk/Trend Inc. who worked at Memorex then: "All he had to do was raise the flag to get people to work with him." When Memorex hit the skids a few years later, several loyal followers joined in launching Shugart Associates, which would pioneer the floppy disk. Among them: Finis F. Conner, who had started out as Shugart's gofer at IBM.

AL SHUGART'S BUMPY RIDE

1961 At IBM, leads development of the first modern disk drive

1969 Moves to Memorex, taking with him some 200 IBM engineers

1972 Creates Shugart Associates, which pioneers floppy-disk market

1974 Ousted from Shugart Associates; opens a bar, buys a salmon-fishing boat

1979 Starts Seagate Technology to make PC hard drives

1985 Protégé Finis Conner leaves to launch rival Conner Peripherals

1991 Wins boardroom brawl at Seagate and ousts President Tom Mitchell

1996 Seagate buys Conner Peripherals

In late 1974, as the new company fell behind in developing the now-familiar floppy, Shugart's venture backers booted him. Nearly broke, he moved to Santa Cruz, opened a bar with some friends, and bought a salmon-fishing boat. "I had a tough time meeting my Porsche payments," he deadpans.

His luck turned in 1978, when Conner brought him the idea of developing small hard drives for the PCs then trickling to market. With $1.5 million in startup capital, Shugart, Conner, and

four associates formed Seagate. The company caught the PC wave and rode it to $344 million in revenues by 1984.

The next year, amid brutal price wars, the honeymoon ended. While Shugart insisted on making drives from scratch, Conner argued that buying parts was less risky—and soon persuaded Compaq Computer Corp. to back the launch of Conner Peripherals. That company rocketed to $113 million in sales its first year. By the late 1980s, Conner considered buying Seagate.

"UP-FRONT GUY." Still, the gruff, hard-driving Shugart stuck to his guns. Buying Control Data Corp.'s surging Imprimis Technology Inc. in 1989 moved Seagate into more profitable mainframe drives. In 1991, after a brief battle for board support, Shugart ousted President David "Tom" Mitchell to focus even more closely on these lucrative markets. When PC demand exploded and key components grew scarce, companies following Conner's outsourcing strategy suffered; every drive maker except Seagate lost money in 1993. Conner was planning to sell his company off in chunks when Seagate approached last summer.

This year Seagate, including Conner, is expected to report revenues of $9.2 billion, up 104% for the year ending June 30, and profits could surge 130%, to $600 million. Wall Street has taken note. While rivals trade at 6 to 8 times earnings, Seagate trades at a multiple of 10—and could go as high as 13, says

SEAGATE'S UPWARD DRIVE

DATA: BLOOMBERG FINANCIAL MARKETS

Robertson, Stephens & Co. analyst Jon van Bronkhorst. Before falling below 60 in the tech sell-off in early March, shares hit 67⅞, up from 23 a year earlier (chart). Van Bronkhorst thinks 100 is within reach next year.

While Shugart is technically astute, colleagues credit his success to his ma agerial style, a deft blend of taskmast and best buddy. He demands hard wo but also understands the restorative v ue of hard play. He has always be famous for impromptu "staff meeting at local bars. These days it's Malone known as "Building 13" at Seagate's building campus in Scotts Valley.

Even more important is his ability hire the right people at the right tin then win their loyalty with his cand "He's the most up-front guy I've ev worked with," says Vice-Preside Stephen J. Luczo, whom Shugart lur from Bear, Stearns & Co. to build t software business. Just ask form Vice-President Robert E. Martell, n president of drive maker Avatar Sy tems Corp. Days after demoting him the mid-1980s, Shugart offered hir job running Seagate's young Eu pean unit. "Don't answer me tonig but keep it to 25 words or less tom row," Martell recalls him sayir Although angry at first, Martell dec ed overnight that Shugart was rig He went on to triple sales in Euro within a year and returned to the U in a better position. "I'd do almost ar thing Al asked me to do," he says tod

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Ie's not alone, in part because gart balances his no-nonsense style h a huge appetite for fun. He and ond wife Rita go on twice-yearly ees to Las Vegas, where Martell s he has seen Shugart drop $70,000 one blackjack table only to win 0,000 at the next. Shugart relishes maverick image. He shows up rywhere, even at major industry ferences, in his trademark short ves. "I don't wear a tie," he says, d I'm always politically incorrect— I never do anything unless I enjoy r it does somebody some good."

GET FREAK. One thing he enjoys is bling in other businesses. He owns a rmet restaurant and an air charter vice in Monterey, and he funds a lisher of quirky books that tickle his cy—such as *75 Light Bulb Jokes.* ow many feminists does it take to w in a light bulb? Answer: That's funny.") A gadget freak, he owns a ercraft that he has never used, and Pebble Beach home has more than phones—four in the bedroom. "We have overdone it there," he says.

lthough no shrinking violet, Shugart recently been getting unwanted ntion. Over the past decade, Seagate been hit with three class actions ught by shareholder lawyer William Lerach, who accuses Shugart of insider trading. Seagate settled the first for $9 million rather than litigate, won the second pending an appeal, and awaits the third. Shugart has donated $255,000 to support tort reform initiatives on the California ballot on Mar. 26. In response, a lawyers' lobby has been running TV ads in which savings and loan felon Charles H. Keating Jr.'s mug morphs into Shugart's above the words: "Protect yourself from the next Charles Keating." But Shugart, who has sued for libel, may get the last laugh. "I'm not even interested in the money," he says. "I'm interested in a personal apology."

OPPOSITES Now Shugart must blend the two corporate cultures: Conner's marble-floored, "Taj Mahal" style with the down-to-earth ambiance of Seagate

He got the last laugh in his rivalry with Conner, of course. While both men say the press exaggerated their animosity, Shugart's strategy was vindicated. "Vertical integration was Al's thing from the beginning, so this is his crowning achievement," says Luczo. Says Conner, who will walk away with $9.5 million, not counting his stock: "Of course I had some seller's remorse, but this should make Seagate the premier storage company in the world."

Now Shugart must make the marriage work. There are major cultural differences, as the companies' headquarters suggest. Conner's marble-floored, art-filled office is known as the Taj Mahal, while Seagate's campus is unpretentious. Intent on having the blending complete by June, Shugart has already announced a product strategy and named Conner execs to key positions. "They've done a good job merging the teams," says one Conner vice-president who was not asked to stay. "They've got a powerhouse organization coming out of this."

That leaves succession as the next, most obvious question. Preparing for one of his quarterly swings through Seagate's 50 offices worldwide, from Minnesota to Northern Ireland to Malaysia, Shugart dismisses retirement. "What would I do?" he asks. "Travel?"

By Peter Burrows
in Scotts Valley, Calif.

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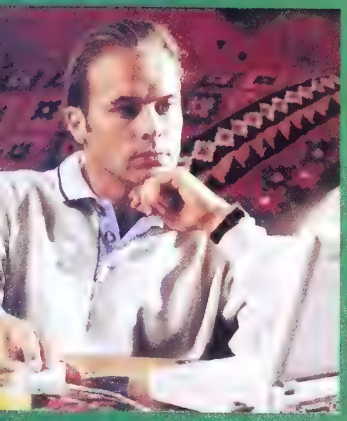

TAKING CHARGE OF YOUR FINANCIAL FUTURE

TAKING CHARGE OF YOUR FINANCIAL FUTURE

When it comes to taking care of business, the message of the 1990s is you're on your own. Mom and dad may be there for you, but the word from employers is that paternalism is out. The company may pay you well while you're there, but they know, and you know, you won't be there forever. In Washington, too, the message is that big government is out and self-reliance is back. You may still collect Social Security and other benefits, but don't expect the government to support you very handsomely.

The new emphasis on taking care of number one can be a two-edged sword. Those who capitalize on the opportunities it presents can do very well in this environment. However, those who aren't eager to take charge of their financial future had better beware.

Personal financial decisions have been made increasingly complicated by changes in both the financial services industry and American lifestyles. There's been an explosion in the range and variety of financial services available to help you achieve your goals. As interest rates have fallen, Americans have yanked billions of dollars out of low yielding bank accounts and invested them in securities markets. Mutual fund assets have climbed from $500 billion in 1985 to some $2.6 trillion today, and the number of mutual funds has mushroomed to more than 7000, far exceeding the number of stocks listed on the New York Stock Exchange. There are funds that invest in virtually every financial instrument and every market around the world. "Mutual funds are an ideal vehicle for someone who doesn't have the portfolio size or expertise to choose individual stocks or bonds," says Joseph Healy, vice-president of T. Rowe Price Associates.

Commercial banks and insurance companies have joined traditional money management firms in offering arrays of mutual funds. Meanwhile, a variety of discount brokerage firms have been vying to serve those who want to invest directly in securities. And insurance policies now come in dozens of new varieties as well.

Last year made investing loo easy: The Standard & Poor's 50 Stock Index was up 37.6%, and the average bond fund had a tota return of 16.4%. The T. Rowe Price New Horizons Fund rose a smart 55.44%.

But who knows what the futur holds. Many believe that the U.S. stock market always does well in an election year. But others wonder if the election campaign may end up producing a flat tax, and they also won der how the debate over this new tax will affect investment markets. More fundamentally, the stock market's price/earnings ratios held steady at 17 last year, but that is well above the 30 year mean of 14.3. So, the critical questions are still the same: Will the markets go up o down? Should you buy or sell? And through which vehicles?

While the array of choices has been growing, so have the variations in personal financial needs. Americans are getting married later—and divorced more frequently. They're having fewe children and having them later in life. Mandatory retirement ha been banned in many fields, so

Mutual funds are an ideal vehicle for someone who doesn't have the portfolio size or expertise to choose individual stocks or bonds

Schwab's advice to investors

KNOW AS MUCH AS YOU CAN, PAY AS LITTLE AS YOU CAN.

What does it take to become a successful investor?

While many would have you believe that it's a mystifying process, we at Schwab have a different point of view.

FOR BEST RESULTS, THE TRIED AND TRUE.

At Charles Schwab, we believe investing is best done when you're guided by a few basic principles:

- Invest for the long term rather than the quick gain.
- Look for value wherever you can find it.
- Seek out balanced, objective information.
- Evaluate carefully the advice of organizations that have a vested interest in the financial products they sell you.

INVESTORS WHO PAY LESS HAVE MORE TO INVEST.

Charles Schwab introduced the concept of discount brokerage 20 years ago, and we're more determined than ever to make sure that investors enjoy a cost advantage.

At Schwab, we believe the investor should think intently and spend wisely.

So, for example, a product like Schwab's Mutual Fund OneSource® service offers over 350 funds from many of America's best-known mutual fund families. And every single one of them is free of loads and transaction fees.

(While load funds can offer attractive returns and other benefits, you could start off with them by giving up as much as 6% of your principal. Even on bad days, the Market is rarely off that much.)

Charles R. Schwab
Committed to giving you control over your financial goals

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Every day, thousands of new investors turn to Schwab. Why not join them? We think you'll find it an altogether demystifying experience.

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TAKING CHARGE OF YOUR FINANCIAL FUTURE

some people are retiring at 55 and others are still working at 70. In order to make the choices that are right for you, you need to develop a comprehensive, ongoing financial strategy. According to José S. Suquet, executive vice-president and chief agency officer at Equitable Life, "The first step in developing a financial strategy is analyzing your needs and clearly defining your goals and priorities."

Moreover, as you move to each new station in life, Suquet says, "For your financial strategy to continue to support the lifestyle you envision, it is necessary to evaluate and review your profile on an ongoing basis." Although Americans are increasingly marching to their own drummers in timing their passages into new stages of life, the stages remain immutable. Most of us will get our first job and first apartment, then get married, raise children, save for retirement, and then retire. Moving through each of those stages requires responses in our financial planning and management.

GENERATION X: AT THE FINANCIAL STARTING GATE

Everyone tells the twenty-something crowd how great it is to be young. But it's tough getting started in real life. That fine education may have broadened your mind, but it may also have saddled you with some big debts without immediately opening doors to high-paying jobs. Still, it's a crucial time to begin the discipline of financial planning. However modest your personal finances may be, you need to think about the three big personal finance issues: managing your cash, investing your money, and insuring against risks.

Cash management isn't about how you use the cash in your pocket so much as how you keep a grip on your overall spending, and credit cards can play a critical role in that process. "In addition to providing safe and convenient payments," notes Carl F. Pascarella, president and CEO of Visa U.S.A., "a Visa card is a financial management tool that gives consumers a record of each and every purchase, allowing them to easily track how much they're spending, when and where they're spending it, and what they're spending it on." Moreover, he says, "For many people a credit card is also a safety net that p vides an instant loan enabling them to handle emergency si ations quickly and easily."

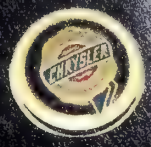
You should manage your spending in order to build up a readily available rainy day fund equal to at least a couple of months salary. Then you shoul start an investment program. H you say, on my salary. I am inve ing—in Hugo Boss and Anne Klein, in looking good and feel ing fine. If I can't be wild and crazy now, well when?

Fine, but this is also the fir and perhaps last time in life that you're completely free to take big investment risks in pursuit of substantial rewards. "In the early years of your investment program," says Dr John Markese, president of the American Association of Individual Investors, "you have a substantial demand for growth in your portfolio and l tle demand for current incom and you have a high-risk toler ance." This is the time to lool for aggressive growth stocks, international investments, junk bonds, or other high-risk/high-return securities. Over the long

Generation Xers should understand that it's cool to start some kind of financial planning.

s not so much a car

Chrysler Concorde *LXi*



it is a wake-up call for an entire industry.

startling exception

a blindly accepted rule.

e idea that room for five must,

definition, leave no room

imagination.

b-forward design

hat exception.

rysler engineers set out to build a car.

ey wound up building

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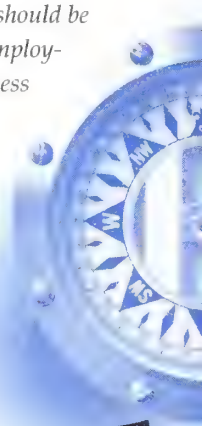
Diagnostic Reports

How are our employees allocating their contributions? What is our participation rate? Do participants use the automated voice response system? How? The next time you want ***answers to your questions,*** *you'll have the information you need.*

Auto Enrollment

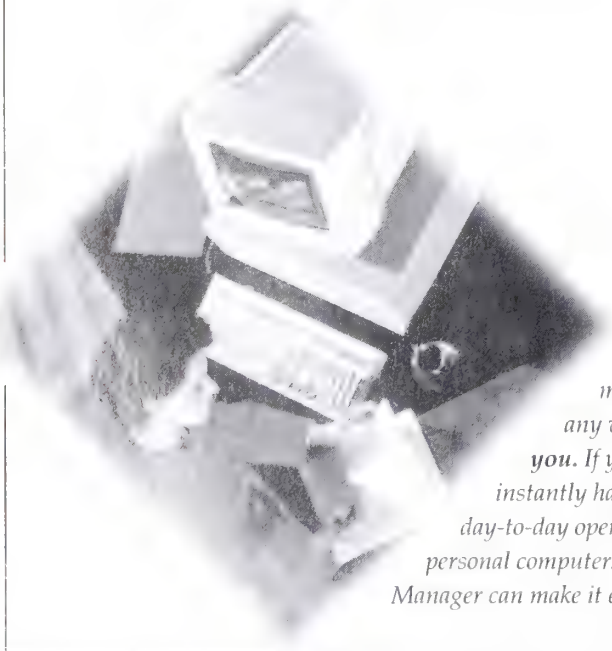
Signing up for a 401(k) plan should be easy, for both you and your employees. Scudder removes the endless paperwork from your desk. And, as your partner, we will ***automatically inform*** *your new employees when they're eligible. They can even* ***enroll*** *by phone!*



Think beyond.

A 401(k) plan is crucial to your employee benefit package, but it shouldn't be a burden on your company. As your 401(k) partner, we would consider it our responsibility to make the plan as simple for you to administer as you would like. And we will gladly create a package of innovative services specific to your desired level of control. After all, that's what a partnership is all about–helping one another succeed. To explore how a partnership with Scudder can give you the right 401(k) plan for your company, please **call us at 1-800-323-6105, ext. 107.**

SCUDDER



Desktop Plan Manager™

You should be able to manage your 401(k) in any way that ***works for you.*** *If you choose, you can instantly handle virtually every day-to-day operation from your personal computer. Our Desktop Plan Manager can make it easy.*

SCUDDER 401(k) PROGRAM

THINK

Contact Scudder Investor Services, Inc., Distributor, for a prospectus, which contains more complete information, including management fees and other expenses. Please read it carefully before you or your employees invest or send money.

TAKING CHARGE OF YOUR FINANCIAL FUTURE

, the differences in returns are nificant. According to data mpiled by Ibbotson Association Chicago, for the years 1926 rough 1994, the average nual returns for investments in all company stocks was 12.2%, d for large company stocks it s 10.2%. By contrast the aver- annual return for long term

A cornerstone of your investment program should be putting away money for your retirement.

porate bonds was only 5.4% d for Treasury bills it was 3.7%. course, those are averages, and ur particular investments may better or worse than the aver- es. Still, over the long term, clear taking greater risks ers a good chance of reaping ater rewards. And you don't ed big bucks to do any of this cause the proliferation of mutual nds means there are some that vest in pretty much any instru- ents you're interested in.

A cornerstone of your invest- ent program should be putting ay money for your retirement. Retirement? But I just started working. "The earlier you put money away, the more time it has to grow," says Mark C. Thompson, senior vice-president of Charles Schwab & Co. If Dick puts away $2000 a year in a retirement plan for ten years, and earns eight percent return per year, at the end of 35 years, he'll have accumulated more than $214,000. By contrast, if Jane does nothing for ten years, and then starts putting away $2000 a year for the next 25 years, and if she also earns eight percent per year, at the end of 35 years, while Dick is rolling in his $214,000, Jane will have only $158,000. "Time can really be a great ally," says Joseph Healy of T. Rowe Price Associates. So if your employer offers a defined contribution plan, join it, and if not, start your own retirement fund. In either case, you should be investing aggressively—that means choosing things like growth stocks, not the fixed income alternatives.

The third element of good planning is insurance. Make sure you get health insurance; no mere mortal can afford the costs of any major medical procedure these days. Life insurance is another issue: Life insurance is not a measure of how important you are but what financial responsibilities you have. If you're not supporting anyone but your goldfish, you may not need life insurance.

Once you've got your finances in order, you can be a true generation Xer—go out and party, or sit home in existential angst, but at least the angst won't be over your finances. Instead, worry about finding a mate.

YOUNG MARRIEDS

While the overwhelming majority of people in this country get married, these days there are fewer high school seniors heading for the altar the week after graduation and more brides and grooms on the shady side of 30. And there's another difference: New brides no longer quit their jobs and keep house for their hubbies. This is the era of two income households, and as a result, many educated young couples find themselves feeling pretty affluent. Imagine—two incomes, no responsibilities, and no pressure to find a date for Saturday night. Have a good time, but remember that you're on the verge of two of life's biggest expenditures: buying a

INVESTOR INFORMATION FROM T. ROWE PRICE

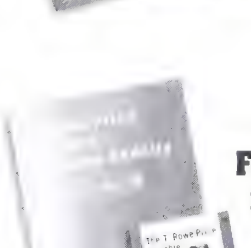
EFFECTIVE RETIREMENT TOOLS FOR EVERY INVESTOR

For people currently employed

Retirement Planning Kit
Figure out how much you should be saving, and establish an investment strategy that's appropriate for you. Also comes in a PC version.*

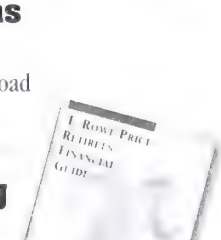
For people changing or leaving their job

Managing Your Retirement Distribution
Understand your options and their tax implications, and determine the best course of action for you.



For people seeking tax-deferred retirement income beyond their IRA and 401(k) plans

Variable Annuity Decision Guide and Analyzer Software
Understand variable annuities, and compare the T. Rowe Price No-Load Variable Annuity** to a mutual fund.



For retirees or people within five years of retiring

Retirees Financial Guide
Figure out how much you can afford to spend and how best to invest during retirement.

An ever-changing challenge. Determining a sound investment strategy for retirement isn't something you do just once—your strategy must evolve as your concerns change over time.

For this reason, T. Rowe Price offers you an entire set of retirement planning guides each one designed to help you assess your options at various points along the way. Whether you've just started thinking about a retirement savings plan or are already managing your finances in retirement, one of these informative kits can help you meet the particular retirement challenge you're facing right now.

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RET03

TAKING CHARGE OF YOUR FINANCIAL FUTURE

ome and having children.

You still need to manage your sh effectively, and you should building your credit resources. The number of credit cards a nsumer carries should be mmensurate with his or her vn financial circumstances," ys Visa's Pascarella.

As for investing, Markese says u should "continue to take sks in pursuit of exceptional wards while maintaining a versified portfolio." While ur primary focus should be on e potential rewards an investent offers, don't neglect the sts. Schwab's Mark Thompson tes, "Your overall expenses, cluding transaction costs, are important consideration in the lection of your assets." Some utual funds levy an 8.5% sales arge for the privilege of letng them invest your money. ut there are hundreds of noad funds that don't impose a les charge and put all of your oney to work for you. Firms ke T. Rowe Price, Dreyfus, anguard, Strong, and others have st choices of funds that can do ything that load funds do. It's o wonder assets of no-load nds have doubled from $400 illion to $800 billion since 1992.

Moreover, Schwab's Thompson says, "Schwab makes it easy for investors to keep track of their investments with consolidated services such as the Mutual Fund OneSource service, which provides access to nearly 400 no-load mutual funds with no transaction fee."

Meanwhile, if you want to make direct investments in stocks and bonds, and if you like to make your own investment decisions without relying on the advice of a broker, you can execute transactions less expensively through discount brokers, like Charles Schwab and several other firms. Their fees are lower because there's no broker who has to get paid a sales commission. And you can buy shares without any brokerage fees at all by using the direct investment and dividend reinvestment programs maintained by many sizable companies. Once you own shares in such companies as McDonalds, Equitable, and Exxon, you can buy additional shares directly from the company without paying a broker.

Building credit resources and maintaining a diversified portfolio are cornerstones of effective financial management.

Meanwhile, remember your life insurance needs change when you say "I do." Now there is somebody you're responsible for besides your goldfish, so it's time to take life insurance seriously. The old rules were simple: the breadwinner should have life insurance equal to seven times his annual salary. But it's more complicated when you have two breadwinners. Moreover, instead of the old choice between term and whole life, there are a number of complex alternatives that allow you to accumulate wealth while providing financial protection. Look into variable and variable universal life policies, which provide a vehicle for investing in securities and using the proceeds to buy insurance coverage.

And keep putting away money for retirement. Now's the last time you're going to feel affluent for a while, because soon you'll be starting a family.

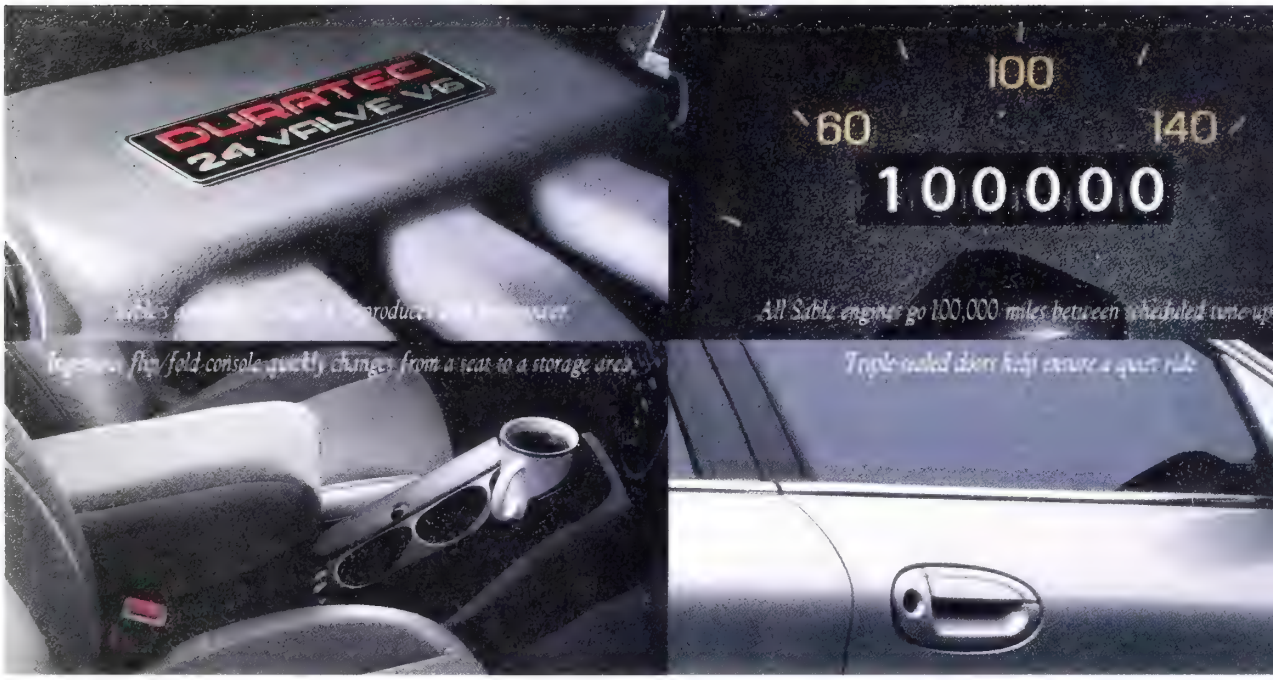
MARRIED WITH CHILDREN

Once you have children, the rules of life change dramatically. You've brought them into the world and you're responsible for them, not only morally and legally, but financially as well. According to a U.S.

INTRODUCING THE ALL-NEW MERCURY SABLE WAGO

It used to be some stretch of the imagination to think a station wagon could ever deliver the ride, handling and comfo a sedan. But now it's as simple as imagining yourself in the all-new 1996 Mercury Sable wagon. Sable wagon has a lo common with Sable sedan — the incredible feeling of solidity, the rewarding and precise road manners and an engine goes 100,000 miles between scheduled tune-ups.* But Sable wagon adds a few twists of its own, like an available rear-fa

Imaginatio



All Sable engines go 100,000 miles between scheduled tune-up

Integrated flip/fold console quickly changes from a seat to a storage area.

Triple-sealed doors help ensure a quiet ride.

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seat, a lockable storage area and 81.8 cubic feet of cargo room within its handsomely styled shape. If you've never
idered owning a wagon but you always find yourself in need of more space, call 1-800-446-8888 to learn more about
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r. One test drive and you might find it easier than you think to imagine yourself in
ll-new Mercury Sable wagon.

*Under normal driving conditions with routine fluid, filter changes

Mercury

IMAGINE YOURSELF
IN A MERCURY

n Stretched.

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Department of Agriculture study, raising a child costs upwards of $200,000. And, by the way, that's without the Hulk Hogan of child-rearing expenses, college tuition.

You should start saving for your children's college education as soon as they're born. According to Jerry Rosenband, a certified public accountant who heads Rosenband & Co. in New York, "The most tax-effective vehicle to begin saving is probably a uniform gift to minors account." These accounts, which can be set up at banks, brokerage firms, or mutual funds, let you put away money in the child's name at reduced tax rates. For children under the age of 14, their first $650 of income is tax free and the next $650 is taxed at 15%. Any investment income after that is taxed at the parent's rate. Once the child turns 14, all investment income above the first $650 is taxed at 15%. By contrast, if you're making over $60,000, you're paying at least 31% in federal income taxes, so you can save a lot with custodial accounts. While the tax savings are attractive, Rosenband says, when you get into big amounts, "You may have to think twice because legally the money belongs to the child," and at 18 you can't really stop them from using the money to buy a sports car instead of paying tuition.

With family financial needs changing, your life insurance requirements change as well. If you die, your spouse will not only only need to replace the income you brought in but also to provide funds to pay someone for the childcare you provided. And one surviving spouse is not going to be saving much for college and beyond. So beef up your insurance coverage.

A year in a leading private university now costs $30,000, and most state universities now cost over $10,000 a year.

MIDDLE AGE: INTO THE SANDWICH

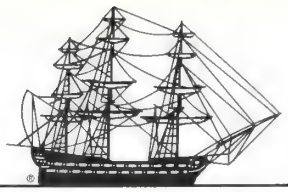
As you move through your 40s, you'll pass into the recently named and fairly unappealing station in life called the sandwich generation. Your needs become sandwiched between those of your growing childre and your aging parents. Both may need your help not only making important decisions b in paying their bills as well.

Sending your children to co lege may well be the single biggest investment you will ev make. A year in a leading priva university now costs $30,000, and most state universities no cost over $10,000 a year. Moreover, fewer college students get their bachelors degr in four years than in earlier er while more go on to graduate school. Even if you had the foresight to start saving when the kids were in diapers, it's unlikely you'll be able to put away enough to pay all those college bills.

Remember to look into finar cial aid. Even parents whose incomes approach six figures may still qualify for financial a at some schools, especially if they have more than one student in college at a time. And think about borrowing. Like ar good long term investment, high er education can be financed ove a period of years. A home equit loan may offer a relatively low ra of interest, which can be tax-

VANGUARD

IRA



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- Vanguard Convertible Securities Fund
- Vanguard Equity Income Fund
- Vanguard Index Trust
- Vanguard Quantitative Portfolios
- Vanguard/Trustees' Equity Fund
- Vanguard/Windsor II

Balanced Funds
- Vanguard Asset Allocation Fund
- Vanguard Balanced Index Fund
- Vanguard LIFEStrategy Funds
- Vanguard STAR Fund
- Vanguard/Wellington Fund

Income Funds
- Vanguard Admiral Funds
- Vanguard Bond Index Fund
- Vanguard Fixed Income Securities Fund
- Vanguard Preferred Stock Fund
- Vanguard/Wellesley Income Fund

Money Market Fund
- Vanguard Money Market Reserves

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The *Vanguard Retirement Planner*, an interactive software package, can show you what you need to do to build a comfortable, secure retirement. The price is just $15, plus $3.00 for shipping and handling. For a description of the software or to order, call toll-free, **1-800-933-1970.**

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I have to wait until

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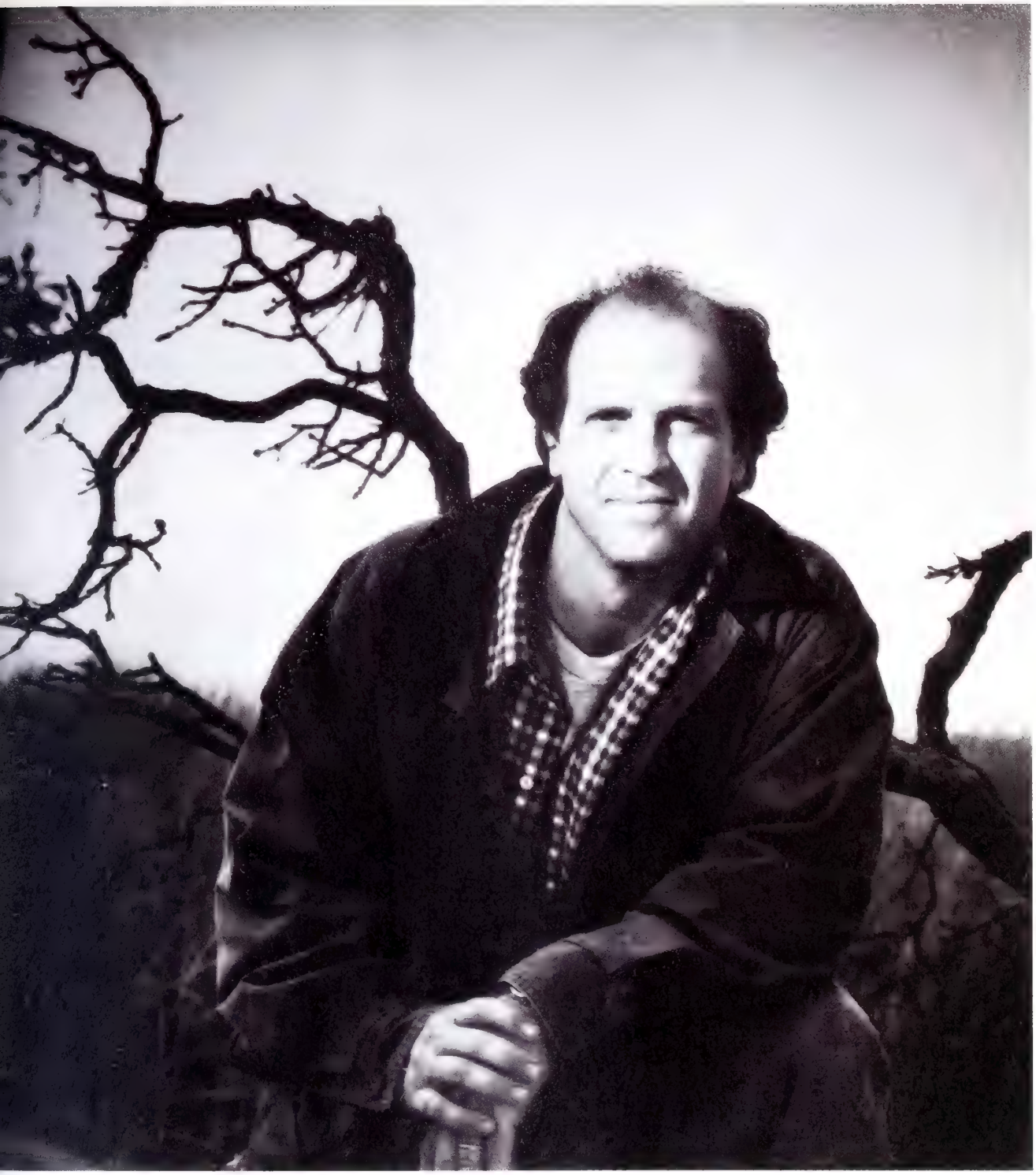

EQUITABLE

Power over tomorrow

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deductible. There are a number of attractive student loan programs operated by colleges and universities as well as government agencies. Find the golden mean: You want to borrow enough to make it less painful now but not too painful in the future. And you want your kids to incur enough debt to understand the value of money but not to start their own adult lives strapped financially.

During this period, you need to tend to your own investment needs and pay attention to retirement savings. "Like everything else in life,you need to strike a balance between what you can do today and what you must defer to tomorrow," says Healy of T. Rowe Price. "Painful as it is to defer some gratification today," Healy says, it's important to try to keep your savings and insurance programs active and up-to-date.

PREPARING FOR RETIREMENT

Somewhere between your 50th and 60th birthdays, the kids will finally get out of college. Don't get too excited, because that doesn't mean they go off the payroll; you just make the checks payable to them instead of the bursar's office. And just when you thought it was safe to try to spend a dime or two, another thought hits you: you're going to retire soon. Because that sizable demographic bulge called the baby boom generation is now hitting 50, "Americans are understandably becoming more concerned about saving for retirement," notes Jim Benson, president of Equitable Life. According to Equitable's annual Best Egg Study, Benson says,"In 1995, only two percent of baby boomers believed that Social Security will be an important retirement income source. Further, boomers indicated they would feel financially secure in retirement with a median of $928,000 in assets although they have saved only $103,000 for retirement."

As you contemplate the golden years, you have to wonder where you'll get the gold. If you've got a 401[k] plan at work you should be putting the maximum amount into it. The same is true if you've got a Keogh plan or other self-employed retirement vehicle. Remember your employer may match your 401[k] contribution and your Keogh contribution is reducing your tax bite. When you figure that in, these are investments offering very high returns.

If you haven't saved much fo retirement at this point, says T. Rowe Price's Healy says, "if all the sudden you want to catch u and if you're maxing out on you 401[k], the next place you wan to turn is investing in tax-deferre accounts. The two predominen choices are a non-tax deductib IRA [individual retirement account] or an annuity." Thomas M. Marra, executive vice-president of ITT Hartford Insurance Companies, says, "Unlike CDs or mutual funds, annuities allow your money to grow on a tax-deferred basis, making them a valuable workhorse in anyone's retirement pla Your account grows faster than i would in a taxable investment. And unlike an IRA or 401[k] plan, there's no limit as to how much money you can invest in i each year." You should not only focus on the kind of investment vehicles to use but also the way in which the money will be invested. "Many people saving for retirement think they can avoid risk by investing their money in accounts that offer a guaranteed, fixed rate of return,

A diminishing reliance on Social Security and company pensions necessitates greater retirement planning.

OUR FINANCIAL STRENGTH has STOOD UP

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TAKING CHARGE OF YOUR FINANCIAL FUTURE

says John P. Ginnetti, executive vice-president of the ITT Hartford Life Insurance Companies. "But the reality is that inflation, over the long term, silently eats away at your buying power and puts your future income at risk." As an investor, you need to continue looking for growth in order to finance the kind of retirement you'd like.

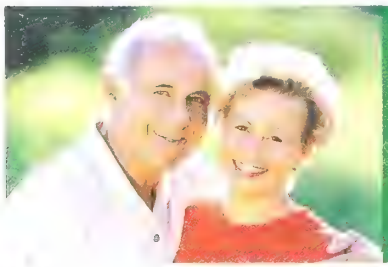
RETIRED

Retirement means something a lot different than it used to. Actuarially it means a period of 20 or 30 years for most people. And today's retirees expect an active and affluent lifestyle that is little different—and not not much cheaper—than the one they had when they were working. Financially, retirement means something other than living on Social Security and employer pension checks. The embattled Social Security program is unlikely to be providing substantial increases in benefits, so for many people it will be a nice adjunct to their retirement income, but not the mainstay. And the days of retiring on fat corporate defined benefit plans are limited to a diminishing proportion of the labor force.

For more and more people, the two financial pillars supporting their retirement will be the money they accumulated in their 401[k] plan and the money they saved on their own. The old financial model for retirees was essentially to begin cashing in equity investments as retirement approached, and then put the proceeds into an annuity or buy bonds and live off the interest. But because of increasing longevity that model is obsolete. Jerome S. Golden, president of the Income Management Group at Equitable Life, says retirees need something to replace their paycheck, and "Immediate annuities can be a particularly appropriate fixed income investment for retirees since they pay a guaranteed income a retiree can't outlive." But he adds, "Equity investments should be a part of a retirement portfolio" because "over the long ru they can be a hedge against increases in the cost of living."

Markese agrees. He says a portfolio "can't go much below 50% in equities and still gener ate enough real after-tax, after inflation income to maintain it value." As he sees it, "People think they have to move to fixe income investments, but they'r really taking on a great risk of inflation, and you can generate income simply by having an al equity portfolio and drawing o dollars, which, by the way will be taxed at a lower rate."

While you're continuing to think long term in investing, yo also need to be realistic. Estate planning is an integral part of sound personal financial plan ning. Take care of difficult but critical issues like keeping you will up-to-date and providing a trusted relative with a health-care proxy and power of attorney. Picking up the check whe you go out to dinner with your kids is all very nice, but the re gift you can give them is to ha your affairs in order so as to minimize unpleasant tasks an maximize the amount you can bequeath to those you love.



Estate planning is an integral part of sound personal financial planning.

TUNE WITH THE TIMES

s you move through the various ages of modern life, money houldn't be the driving force. ut, inevitably money will ictate the range of alternatives ou have, if not the choices you ake. So, if you want to be in e drivers seat, you need to et the most out of what you ave through effective financial anning. As the British novelist hn Galsworthy put it, "Those ho do not plan for the future nnot have one."

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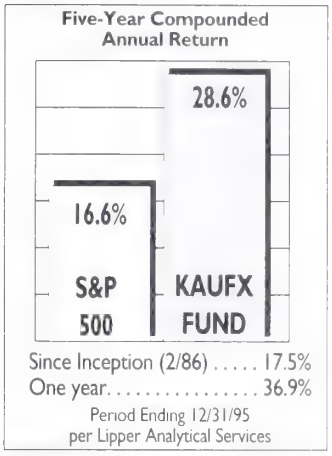

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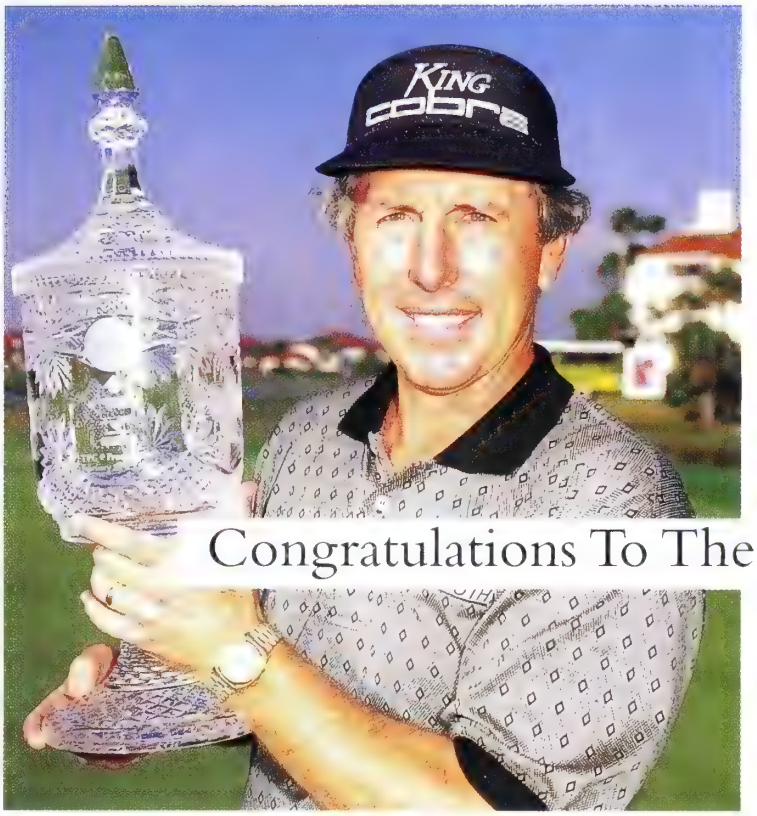

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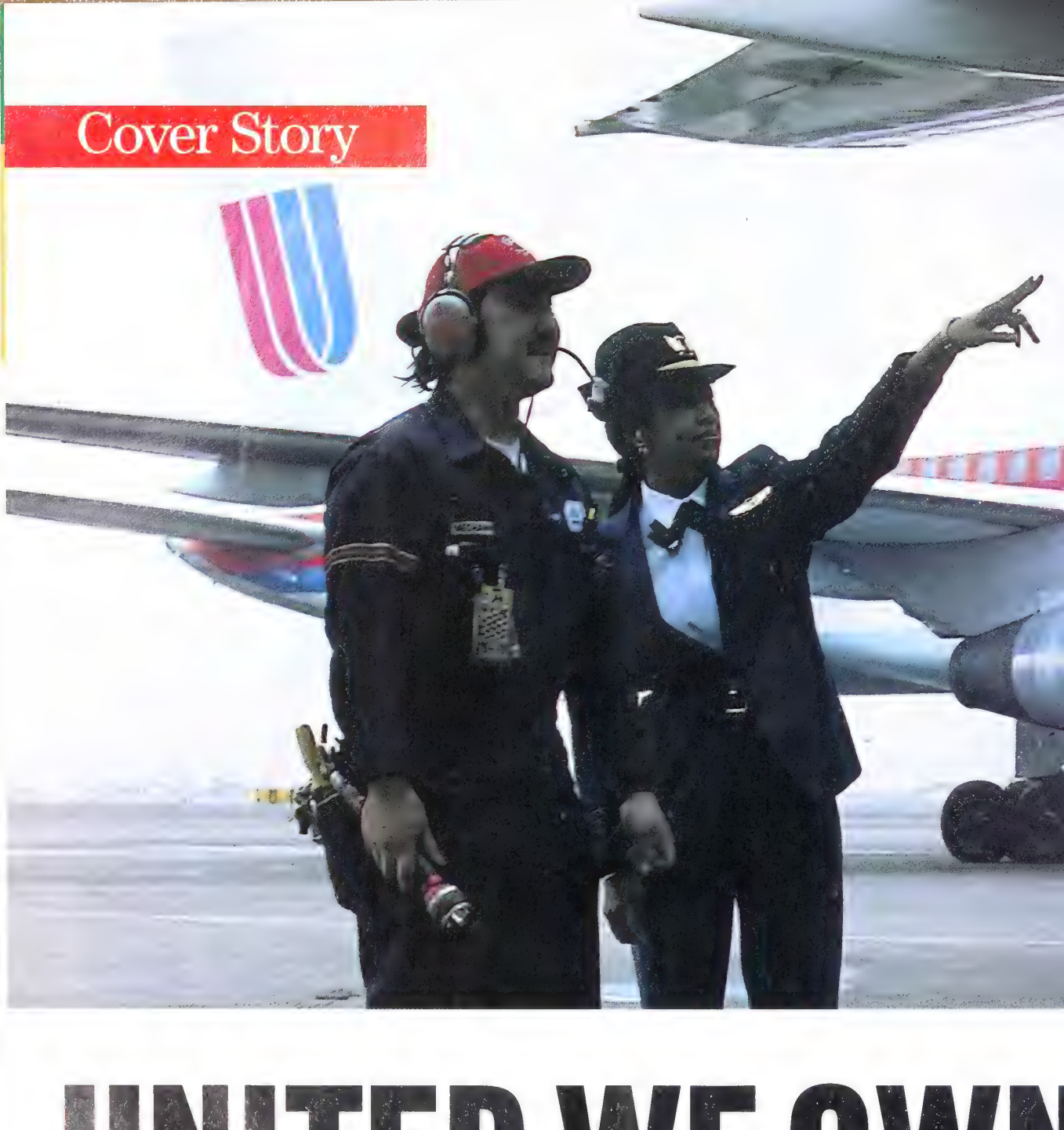


UNITED WE OWN

Employee ownership is working at the airline. Can it travel

Long ladders don't seem to have much to do with saving jet fuel. But when United Airlines Inc. brought together its pilots, ramp workers, and managers for the first time to brainstorm about fuel conservation, the answer was just that simple. The idea was to use electricity instead of jet fuel to power planes idling at gates. But ramp workers couldn't plug cables into the aircraft because their ladders were often too short. "In the past, we would have sent out an edict and nothing would have changed," says Robert M. Stu United's top fuel administrator. "We were finally able to tract what the real problem was." Now, equipped with ta ladders, the carrier will save $20 million in fuel costs this y

Such anecdotes about once unimaginable cooperation h become common in the 18 months since United employ bought their company for $5 billion. Wall Street analy union leaders, and even many United workers were skept about the prospects of employee ownership at the 70-year-

HJ KASHI

CEO GREENWALD
"We're no longer a company that operates by command and control"

rier. But so far, the bold leap o an employee stock-ownership n (ESOP) in July, 1994, led by mer Chrysler Vice-Chairman rald Greenwald, is paying off. **WAS WRONG."** The nation's No. 1 line, United is outperforming st of its rivals—gaining market are from No. 2 American Air- es Inc. and No. 3 Delta Air nes Inc. and posting fatter oper- ng margins and higher stock ns (charts, page 98). The productivity of United's 83,000 em- yees is rising, while grievances have plunged. "I was cyn- l about employee ownership to begin with, but I think I was ong," says Candace E. Browning, a veteran airline analyst Merrill Lynch & Co. "United has hard statistics that show e company is working differently than in the past."

Perhaps most encouraging to United workers, who traded average of 15% in pay cuts for 55% of the company and 3 its 12 board seats, UAL's stock price has more than doubled since the ESOP went through. Indeed, although lower-than-expected fourth-quarter results pulled down the price late last year, United shareholders will vote in April on a 4-for-1 split in the $190 shares. Many employees "watch the stock like a hawk," says International Association of Machinists (IAM) leader Ken Thiede. "I have guys who can tell you what the volume is on certain days."

If the success of United's employee buyout continues, it could show the way for other airlines and help usher in a more stable era for the turbulent industry. Both Northwest Airlines Inc. and Trans World Airlines Inc. have sold 30% stakes to employees in recent years and are reaping the

payoff in lower costs. In mid-February, pilots at Delta traded 2% pay cuts for a nonvoting board seat and stock options on 19% of the company. USAir Inc. unions have been pushing for ownership, too—and it has seemed more likely since former United CEO Stephen M. Wolf, who led UAL during the buyout, took the helm at USAir in January. If employees gain significant input in most carriers, they may be able to resist the spending sprees that led to chronic industry overcapacity in the past. "Widespread ownership will put restraint on the upside, which will help the industry to be less volatile over time," says Randy Babbitt, head of the Air Line Pilots Assn.

SPREAD THE WORD Meetings keep employee-owners informed about the new United

The country's largest experiment with majority employee ownership still faces plenty of potential air pockets. Unhappy about large pay cuts, United's 20,000 flight attendants never joined the buyout and again refused Greenwald's offer to do so in a tentative new labor pact reached in early February. Many other employees still resent the pay cuts they took and suspect the ESOP was foisted on them by greedy corporate executives and investment bankers who walked off with millions. And the new low-cost Shuttle by United, which the unions agreed to set up to take on Southwest Airlines Co., has been scaled back drastically from the original plan—in the face of a stiff counterattack from Southwest. So while United is now better armed against further encroachment by low-cost carriers, it's not likely to regain market share from them.

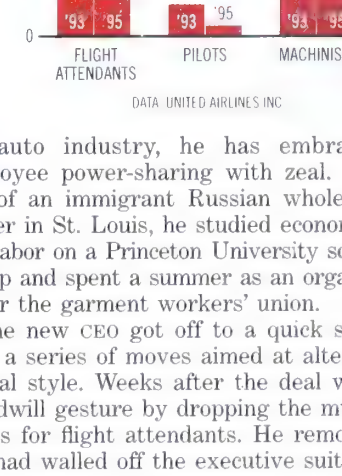
NEW ATMOSPHERE. It's also clear the initial burst of enthusiasm that employee ownership can generate is difficult to sustain over the long haul. Defunct Eastern Air Lines Inc. and other carriers had great success with the idea in the mid-1980s—only to see it fizzle when fare wars hit. Early proponents recently have run into trouble in other industries, too, often because executives are uncomfortable about sharing power with employee-owners. Familiar names associated with ESOPs, such as Weirton Steel Corp., have yet to create solid co-management structures that outlast the initial chief executive. At others, including Avis Inc., tensions between managers and employers are mounting (page 101).

United's biggest test will come in the next downturn. Part of the carrier's post-buyout success stems from a surge in air travel that generated a record $2 billion in profits for the industry last year, vs. $13 billion in losses in the previous five years. When the g times give way to the inevitable next round of fare war need for further cuts will challenge United's newfound c erative spirit—and possibly its superior performance. ready, the company has dented the goodwill by announ bonuses for 600 managers under a longstanding incentive-c pensation plan, news that didn't sit well with employees adjusting to pay cuts.

Still, there's definitely a new atmosphere at United, much of the credit goes to Greenwald, the Chrysler Corp. finance whiz chosen by union leaders to succeed the autocratic Wolf. Although Greenwald, 60, spent his career in the hierarchical auto industry, he has embra employee power-sharing with zeal. son of an immigrant Russian whole grocer in St. Louis, he studied econo and labor on a Princeton University sc arship and spent a summer as an orga er for the garment workers' union.

The new CEO got off to a quick s with a series of moves aimed at alte United's rigid managerial style. Weeks after the deal v through, he made a goodwill gesture by dropping the m hated body-weight limits for flight attendants. He remo heavy glass doors that had walled off the executive suit the headquarters building in the Chicago suburb of

...Employee Complai Are Falling...



DATA: UNITED AIRLINES INC

Efficiency Is Rising...

DATA: AVITAS INC. BUSINESS WEEK

United's Takeoff

The nation's largest airline has outpaced most major rivals ever since employees bought 55% of the company 18 months ago

ve Village. Greenwald also created a half-dozen employee k teams" to examine everything from reducing workers' time to improving cash management. Then he hit the l to spread the word about the new United to employees ar-flung bases. Upon becoming CEO, says Greenwald, "I the view that we're no longer a company that operates command and control. But if I were CEO of any company, would be happening."

Greenwald's most eye-catching effort to pull employees decisions came last October, when United was consider- acquiring USAir. Instead of the usual secrecy surrounding ger talks, Greenwald, who sports his company I. D. on a n around his neck like everybody else, sought union lead- input. They recounted the disastrous record of most air- mergers, mostly due to the difficulty of combining union ority lists. For pilots, seniority is sacred: It means the t to fly bigger planes and earn more money.

Greenwald listened intently—and killed the bid. Union lers were as impressed by the method he result. Now, "they come to us and e a lot of information. That was never e before," says the IAM's Thiede. "The om line is that the employees are much er off." Greenwald, a veteran of more 30 merger talks, agrees: "It was an zing experience," he says. "Not only we not lose anything by being open, we gained a lot."

Nor has such high-level employee input produced the board infighting that Wall Street had worried about early on. The board includes former IAM leader n Peterpaul, pilot leader Michael Glawe, and Avis CEO Jo- h Vittoria, who was chosen by the nonunion salaried em- yees. Greenwald and President John Edwardson sit with en outsiders, such as former Federal Reserve Board f Paul Volcker and former Manufacturers Hanover Chair- n John McGillicuddy. While outsiders initially had suspi- s about the union reps, the process of evaluating a bid for ir galvanized the board into a team, members say. "It n] became clear everyone was committed to representing reholders," says Director James J. O'Connor, chairman of cago's Unicom Corp., parent of utility Commonwealth son Co. In fact, the board reached consensus in the end didn't even bother with a vote.

YING BALL. Investors also feared that employees would re- against cost-cutting decisions. Not so far. One employee m studying United's Salt Lake base recommended hiring ra workers to help unload skis in winter. But union ramp rkers get $38 an hour for overtime. The solution—hiring an-hour temps—came from the ramp workers themselves, ose jobs are guaranteed under the buyout.

Now that they're owners, employees seem more flexible erever you look. In 1995, United rolled out electronic tick- g without a hitch, beating American to the punch—despite American's history of technology breakthroughs. The reason: An employee team with members from seven departments tested the system around the airline. Team members fanned out on speaking tours to explain electronic ticketing to travel agents and corporate customers.

And when a pilot shortage developed last summer, the pilots' union agreed to fly longer hours instead of forcing United to cancel flights, as was its contractual right. "If we openly talk about our interests and try to solve problems, we're going to have an advantage over other companies," says Glawe, a Boeing 727 captain. Even early foes of the ESOP are no longer throwing bricks. Jerry Summers, a 747 captain who formed an ESOP-opposition group that filed a lawsuit challenging the deal, says the group is no longer active. "I'm trying to plan my life based on what's here," he says. "I hope it works. I really do." The suit is stalled in federal court in Chicago.

Breaking down traditional lines is an education for managers as well. For years, aircraft cleaners had been asking the company in vain to solder the ashtrays shut, since smoking is no longer allowed. Then, as part of the new regime, Edwardson, United's president, began working with baggage handlers and cleaning crews once a month. One day, he had to dig a hunk of wet chewing tobacco out of an ashtray with his fingers. The lids got soldered pronto.

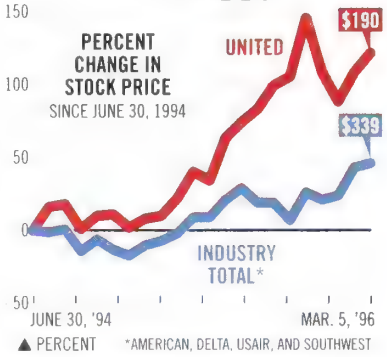
The new attitude at United shows up across the board. For instance, a team on "employee dependability" recommended that to reduce no-shows and sick time, pilots and flight attendants should have more flexibility to swap job assignments with colleagues. The team got United to pony up for an incentive scheme: Twice a year, 25 employees are picked at random, out of all those with six months of perfect attendance, to win $20,000 cash or a Jeep Cherokee. From March to September, 32,000 employees—40% of the workforce—met the standard. (Bad news for Chrysler: All 25 winners took cash.)

Such moves slashed sick time by 17% last year, saving $18.2 million annually. Similarly, workers' compensation claims are down 17%, and their cost has fallen 30%. And grievances have plunged dramatically for all employee groups.

United's overall cost performance is better, too. Some of this is because of the concessions employees agreed to in the buyout, which helped to slice labor costs by 7% last year. Delta cut its labor bill, too, by 6%, but only by slashing 15,000 jobs and pulling out of some markets. American's labor expense actually rose by nearly 2% in 1995.

Employee ownership has also helped United expand while its two main rivals are shrinking. With employees looking for efficiency gains, operating revenue per worker jumped by 10%

...And Wall Street Is Happy



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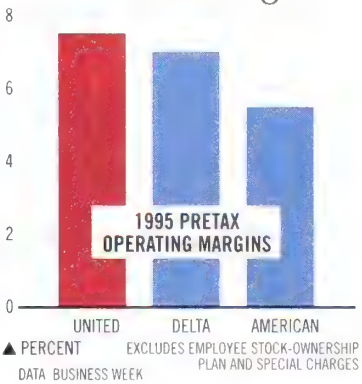

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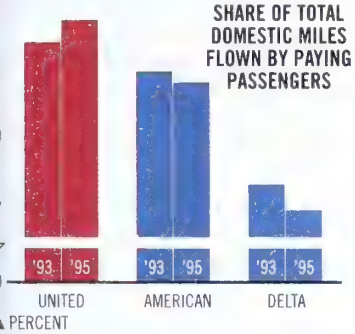


DATA. AVITAS INC

Cover Story

The next downturn–and its round of fare wars–may challenge United's newfound cooperative spirit

last year, vs. advances of 8% at American and 7% at Delta. But those carriers' gains came largely from retrenchment. United has hired 7,000 new people since the buyout and grabbed market share from the other two, boosting revenues by 7% last year, to $14.9 billion. "I'm pretty impressed with what United has accomplished," says a rival airline executive.

United's expansion hasn't come at the expense of profits, either. Its pretax operating margin more than doubled last year, to 7.5%, ahead of Delta and American. And increased cash flow has allowed United to prepay $750 million in debt and buy back more than $100 million in preferred stock in 1995. These are important steps toward restoring its investment-grade credit rating. "Our costs for the whole company are lower than we forecast, and profit is greater," says CFO Douglas A. Hacker. None of this has been lost on Wall Street. United's stock has soared 120% since the buyout, vs. 46% for the Standard & Poor's airline-industry average (which includes American, Delta, Southwest, and USAir).

Cover Story

Not all the news at United is upbeat. The company has failed to reach some early goals, especially at its Shuttle. By imitating Southwest's no-frills, high-frequency service in the lucrative California market, the Shuttle was projected to generate $1.5 billion in savings through 2006. The Shuttle won't come close, largely because of fierce fare cuts by Southwest. The unit's costs are running at 8¢ per available seat mile, not the 7.4¢ target United had set, much less the 7.1¢ that Southwest attains. And the Shuttle is losing money, United concedes, although it won't say how much.

The Shuttle represents 3% of United's revenue, far from the 20% envisioned before the buyout. And United no longer talks about expanding the Shuttle outside California. "The Shuttle has been a failure in developing new markets," says PaineWebber Group Inc.'s Samuel C. Buttrick. Greenwald admits the Shuttle isn't taking market share. "To those who say it's a defensive weapon, that's fair," Greenwald says. "However, to conclude it will always be one is premature."

HOUSE DIVIDED. Another negative is Greenwald's inability to bring flight attendants into the ESOP. Initially, $25,000-a-year attendants rejected the buyout because the pay cuts were too large. Today, it would cost them even more, because United's stock is pricier. So in the recent contract talks, Greenwald offered simply to give each union member a token 1.5 shares. Union leaders refused—unless the union got a board seat—although they signed a tentative new labor pact on Feb. 7, three weeks before the old one expired. "I wouldn't want to take a pay cut, but I also want to see United do well," says Debbie Golombek, a 17-year flight attendant based in Denver. Says Kevin Lum, president of the Association of Flight Attendants at United: "If I'm going to be an owner, I'm going to be like everybody else, with a seat on the board." Still, as long as United is a house d ed, its attempts to improve service could be hindered.

Indeed, customers haven't yet seen much benefit United's plunge into employee ownership. During 1995, ed still ranked fifth among the 10 major carriers in late vals, sixth in mishandled baggage, and seventh in cust complaints, according to the Transportation Dept. The bers haven't been lost on top management. To improve vice, ticket and gate agents now are allowed to dole seat upgrades and travel credits without consulting a su visor. "Now I'm not a sandwich person caught between customer and the hierarchy," says Sandra Doscher, a t agent at New York's LaGuardia Airport.

Similar tales of improved morale can be heard at carriers that have embraced employee ownership. At N west Airlines, an ESOP was a last-minute compromise to s off bankruptcy in 1993. Ever since its employees swapped cuts for 30% of the company, its operating margins have run those of other major airlines. Employee suggestions

ATTENDANTS' BEEF: "I wouldn't want to take a pay cut," Golombek says

saved an estimated $100 million a year. Watching Northw shares soar from 13 when the company went public in 1994 to a 1995 peak of 53½ hasn't hurt, either.

Employee ownership has been key in keeping TWA a too. During its second flight through Chapter 11 bankru last year, employees agreed to forgo scheduled wage h and slice their equity stake from 45% to about 30%. Now, its balance sheet in order, TWA is poised for a comeback, dicts Brian Harris, airline analyst at S. G. Warburg & C

Employee ownership still faces many challenges at three airlines that have tried it. The idea probably w stabilize the industry until several more large airlines emb it. But if they do, employees, investors—and maybe customers—may cheer the outcome.

By Susan Chandler in Elk Grove Village, Ill., with bu reports

WHY ESOP DEALS HAVE SLOWED TO A CRAWL

Few executives seem comfortable sharing power with employees

WARY AT WEIRTON Union leader Glyptis thinks communication has broken down

n the 1980s, employee ownership looked like an unstoppable wave. Thousands of companies rushed to put stock into workers' hands to ward off takeovers, gain tax breaks, or respond to a conviction that employees with a ke work harder and smarter. The 1994 United Airlines Inc. rout pushed the trend to a new level, as unionized employ- purchased control of one of the nation's premier compa- s—not to fend off a looming disaster but to take control of ir destiny.

Now, the surge of so-called people's capitalism is ebbing. om 1988 to 1993, the number of employees at companies h employee stock-ownership plans (ESOPs) climbed only %, to 10 million, according to the National Center for Emyee Ownership in Oakland, Calif. By contrast, in the prior years, the number of employee-owners had soared 66%, 9 million.

For one thing, takeover fears have abated, and fewer execves are rushing to put stock into employee hands. And ngress has whittled away at the tax breaks for ESOPs, ucing their advantage to companies over 401(k)s and othretirement vehicles.

SENTMENT. More important, employee ownership has run o management resistance, at least at big companies. At t, many executives thought passing out stock would motie employees and boost performance. But evidence shows t, to be effective, ownership has to be combined with und-floor efforts to involve employees in decisions through emes such as work teams and quality-improvement groups. ny companies have been doing this, of course, including nty without ESOPs. But employee-owners often begin to ext rights that other groups of shareholders have: a voice in ad corporate decisions, board seats, and voting rights. d that's where the trouble can start, since few executives m comfortable with this level of power-sharing.

A decade after their emergence, many early icons of emyee ownership have run into problems ranging from smoldering employee resentment to outright labor-management warfare (table, page 102). "Most of the early examples of large employee-owned companies have failed to create a true ownership culture," says Joseph R. Blasi, a management professor at Rutgers University and an ESOP expert. "Management is unwilling to let employees exercise normal shareholder rights."

Just look at Weirton Steel Corp., one of the most visible early experiments in employee ownership. In the 12 years since workers avoided a shutdown by buying 100% of the company, which is based in Weirton, W. Va., they have swallowed several wage and job cuts and sold a total of 33% of their stock to fund plant upgrades and pare down debt. But in 1994, after then-Chief Executive Herbert Elish had spent lavishly on a $550 million modernization plan, the ESOP was forced to sell more stock, slashing its voting share to 49%. The 4,500 angry union members blamed Elish and demanded a fourth employee seat on the 12-person board. Privately, they also demanded that Elish depart.

The company has never quite recovered. Elish retired last year, but he got his revenge by handpicking his successor, Richard K. Riederer, the former chief operating officer. Riederer seems determined not to let the union treat him the same way. He has plowed ahead with a lawsuit Elish initiated, charging that a four-hour shutdown of the tin mill last year, amid worries of a poisonous mist of chromic acid, was an illegal work stoppage. The union insists the safety concerns were real.

Meanwhile, Riederer has cut much of the communication with union leaders, says Robert J. D'Anniballe Jr., a board member and legal counsel for the union. Complains union president Mark Glyptis: "You would hope that you could sit down and reasonably discuss issues and resolve them." Rie-

SUE YOURSELF? Publix worker-owner Johnson alleges sex bias

derer declined to discuss the problems because, as Weirton spokesman John F. McMahon says, "we don't consider ourselves an ESOP company anymore."

Employee ownership is buckling at Northwestern Steel & Wire Co., too. Unions gave pay cuts to stave off disaster at the Sterling (Ill.) steelmaker—taking 59% of the company and half the board seats in a 1987 ESOP. The company flirted with bankruptcy again in 1992, forcing the 1,800 United Steelworkers members to cut their stake to 16% and sell the rest to new investors. The union has been warring with management ever since.

Cover Story

Recently, relations hit a new low after the company built a lower-wage plant in Hickman, Ky., and refused to grant recognition to the union. Meanwhile, Northwestern laid off 30 employees in Sterling. Angry union leaders confronted CEO Robert N. Gurnitz last fall and gave hostile speeches at the January annual meeting. "Gurnitz is trying to get away from the union by going to Kentucky," charges Art Gillihan, president of USW Local 63. Gurnitz denies this is his intention. "Obviously, we have issues we differ on now, but so does every family," he says.

Employee input has become a problem in a different fashion at Publix Super Markets Inc. The Lakeland (Fla.) chain is the nation's largest ESOP company, with 97,000 employees owning 44%. Founding Jenkins family members hold the rest. The most troubling issue: a pending sex-discrimination suit filed by 12 female employees and backed by the Equal Employment Opportunity Commission alleging that Publix keeps women out of managerial jobs.

Pat Johnson, one of the dozen women, was promoted to deli manager after four years but has been stuck there for the past decade. She and other plaintiffs want their suit certified as a class actio behalf of Publix' 50,000 fe workers. Publix de systematic discrimination argues that certifying the as a class would, in ef force female Publix workers to sue themselv since they're part-owners. But to Johnson, th sue is control. Even with ownership, "we still no say in the company," she charges.

Decision making is becoming an issue at Inc., as well. Management set up a 100% ES 1987, then sold 29% to General Motors Cor 1989. At first blush, the Garden City (N. Y.) rental agency appears to be a model of empl involvement. Workers attend monthly meetin 150 locations, looking to solve local problems improve quality. Many employees seem ple with the process, and Avis scored just ahea Hertz Corp. on a new J. D. Power & Assoc Inc. rental-agency customer-satisfaction ranki

"NOTHING HAPPENS." Still, workers complain have no board seats or voting rights, accordir the Teamsters union, which represents one-thi Avis' 14,000 employees. Their concerns have fueled by the company's poor performance, w cut the stock from 22 in 1992 to 12½ now.

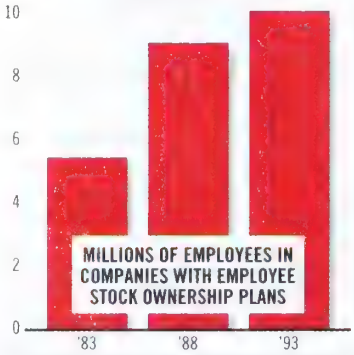
"We've asked [CEO Joseph V.] Vittoria why there ar employee reps on the board, but nothing happens," Sharon Martin, a 30-year veteran counter agent who is a ion steward at the Detroit Metropolitan Airport. "It's same old group on the board that was there before ESOP." Vittoria says he has nothing against employee b seats: In fact, United Airlines' nonunion salaried emplo appointed him to the carrier's board. But at Avis, he says, not necessary, because employees have confidence in u deal with [major corporate decisions]."

Most executives at ESOP companies seem to share view. Employees own an average of 13% of their companie 562 public companies, says Blasi of Rutgers. Yet emplo have board seats at fewer than a dozen of these compa and most of those are unionized.

Employee ownership is by no means a dead lette continues to thrive at small private firms, experts sa part because worker-input issues are easier to handle smaller scale. And United may spark new interest in idea—as long as it continues to be a success. But the e vision of ESOPs as models of participatory capitalism se to shine a little less brightly today.

By Aaron Bernstein in New

The Growth of ESOPs Has Slowed...



DATA: NATIONAL CENTER FOR EMPLOYEE OWNERSHIP, BUSINESS WEEK

...and Early Experiments Have Run into Trouble

Leading companies that set up ESOPs in the 1980

COMPANY	PROBLEM
AVIS	Agency refuses to give employe board seats or voting rights
NORTHWESTERN STEEL	Company is fighting with unior about newly built nonunion mi
PUBLIX	Lawsuit by female employees alleges sex discrimination
WEIRTON	Feuding CEO and union leader are barely speaking

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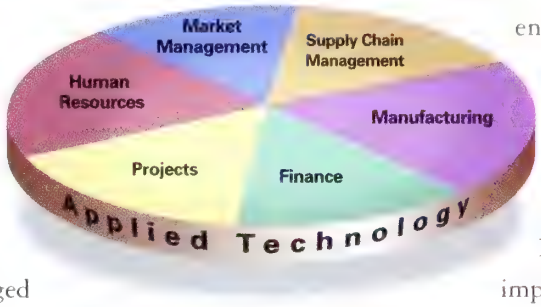

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PENSION FUNDS

CORPORATE AMERICA'S CLEAN LITTLE SECRET

Lush pension funds are swelling company coffers, but mum's the word

While much of the media focuses on how individuals are benefiting from stocks, a huge beneficiary of the bull market is going unnoticed—and trying hard to keep it that way. This investor—the old-fashioned company pension plan—reaped some $200 billion in capital gains in 1995. After years of investing billions in equities, corporate pension plans have more assets than they know what to do with. And the implications of that for Corporate America are enormous.

The long bull market has swollen many pension plan assets far beyond what the companies will have to shell out to their workers in the future. But few of the big-name corporations benefiting from this phenomenon will discuss what they plan to do with their surplus. "We deal with many companies who have surplus assets, but it's hush-hush—none of them wants to discuss it publicly," says Alan A. Nadel, a partner with Arthur Andersen LLP. "It's a major corporate asset, and companies don't want to talk about how they might utilize it."

STRATEGIC WEAPONS. But utilize it they will. Although companies are prohibited from tapping directly into much of the surplus in so-called defined-benefit plans, which provide a fixed level of benefits to retirees, there are significant ways to use a surplus to the company's advantage. For one thing, an overfunded plan means a company doesn't have to make cash contributions to the plan, leaving more cash for expansion or other corporate expenditures. Overfunded plans can tap into the surplus to cover hefty retiree medical costs. Surplus assets also give a big boost to earnings. And a pension surplus can be a strategic weapon, affording a company the flexibility to sweeten early retirement packages in downsizings.

Corporations have gotten a big bang for their bucks by putting assets into equities. On average, defined-benefit plans hold 43% of assets in stocks, according to the Employee Benefit Research Institute (EBRI). Not an overwhelming amount, considering how much stocks have appreciated in recent years. But the largest pension plans typically allocate at least 60% to stocks. Some companies take even larger equity stakes—Motorola Inc. has as much as 74% in stock (table). "Large corporations such as AT&T and GTE Corp. are very heavily equity-weighted," notes Dallas L. Salisbury, EBRI's president. "Their plans are so significantly overfunded that they can afford to take the volatility risk." AT&T's defined-benefit plans have a surplus of about $10 billion. And GTE's plan surplus is $6 billion—or more than $6 a share.

Many of the largest plans have done so well that they fund themselves. "Very few of us put any money into the pension funds, and there are huge amounts coming out to pay pensions and in downsizings," says Ronald Boller, vice-president of investments for Owens-Illinois Inc., which has a $2.5 billion plan that is 70% invested in stocks. "We haven't had to put a nickel in our fund for years." Since corporations don't get tax deductions for putting money into very overfunded plans, many have stopped contributing and are letting funding levels drift down.

Equity Appetites Vary

Plans that Invest Heavily in Stocks...	PERCENT OF ASSETS IN STOCKS*	...And Plans that Don't	PERCENT OF ASSETS IN STOCKS*
J.C. PENNEY	76%	PHILLIPS PETROLEUM	32%
MOTOROLA	74	PROCTER & GAMBLE	40
DEERE	73	UNION CARBIDE	41
AT&T	70	RJR NABISCO	45
GTE	70	ABBOTT LABS	50

*For defined benefit plans as of Sept. 30, 1995

DATA *PENSIONS & INVESTMENTS*

'apping surplus assets got a lot gher after the raids on corporate sion plans in the 1980s. Then, some ers recouped the purchase price of a pany and more by terminating an rfunded plan, replacing benefits with uity contracts, and pocketing what left. To put an end to such maneu-s, Congress tacked on a 50% excise and a 35% income tax that makes minating an overfunded plan, without stituting another one with similar benefits, a foolhardy venture.

Just about the only straightforward use of surplus assets is to pay retiree medical costs. If a plan's assets are consistently at a level of at least 125% above liabilities, then it can take money out of the pension plan to cover retiree medical costs. Owens-Illinois has done that for four of the past five years. "We have had big-time retiree medical to pay, and being able to pay it out of the pension fund has been wonderful," says Boller. AT&T and DuPont Co. have also tapped surplus funds to pay retiree medical costs over the years.

Surplus assets can also increase a company's earnings. That's because the expense of providing a defined-benefit pension fund decreases as the earnings on assets increase. Pension expense is offset by the expected return on pension assets. "When your assets get to be significantly large, that number gets big enough to cause total expense to be a negative number," notes James Baumstark, a principal at Chicago Consulting Actuaries Inc. That offset to expense is called a pension credit and it works its way into earnings. "In some cases, it can make up as much as 20% to 25% of reported earnings," says Baumstark. Ethan E. Kra, a managing director at consulting firm William M. Mercer Inc., scanned a database of 1994 earnings at 300 public companies and found 40 companies that reported pension income. The total amount: $2.3 billion. In the case of GTE, its 1995 reported earnings, before a one-time charge, were $2.5 billion—and $403 million, or 16%, of that is pension credit, according to the company. DuPont and General Electric Co. also have big pension credits.

Surplus funds, swollen by soaring stocks, allow companies to beef up earnings, offer early retirement, and free up cash

Some companies are loath to talk about their surpluses because it might invite an unfriendly takeover. The overfunded plan at aviation and electronics-products manufacturer Teledyne Inc. was a motivation for a hostile takeover bid by WHX Corp., parent of Wheeling-Pittsburgh Steel Corp. Analysts say that Teledyne's surplus of $851.4 million is a big lure to WHX, which is facing labor negotiations that will likely result in higher pension obligations. But if it merges with Teledyne and adopts their plan, it could avoid making a big cash infusion. If WHX takes over Teledyne and needs to do any downsizing, Teledyne's pension surplus could be a big help.

To avoid becoming a takeover target, some companies make a concerted effort to use up some of their surplus. One corporate treasurer tells of how his company was worried about "becoming very visible with our big overfunding." The plan had no element of cost, and "we were recognizing income. The plan assets on our books were equal to our company's net worth."

FUNDING DOWNSIZING. To bring down the level of overfunding, the treasurer modified his company's defined-benefit plan. He added a feature that could be funded out of the old plan's surplus. That so-called "cash balance" feature guarantees employees a return, often tied to the 30-year Treasury bond, and allows employees to take pensions with them when they change jobs.

Surpluses can also help companies that are in dire economic straits. Take DeSoto Inc., a consumer goods company in South Holland, Ill. In January, DeSoto notified the Pension Benefit Guaranty Corp. that it plans to terminate its employee retirement plan in April if it gets government approval. The company's press release notes that its plan is "substantially overfunded" and that DeSoto, which is in a liquidity squeeze, "has been continually evaluating various methods of maximizing the economic benefit of their excess funds." If able to terminate the plan, it would use the money to pay off creditors and "stabilize continuing operations." DeSoto is also exploring a merger as an alternative to terminating its plan.

Overfunded pension plans also play a big role in downsizings. They allow companies to offer early retirement deals and add to a worker's pension as an incentive to leave. In the last few years, the regional Bell telephone companies have made good use of their overfunded plans. "One of the reasons they could achieve their downsizing is because of their overfunded plans, which allow them to extend pension enhancements or sweeteners to employees," says Guy Woodlief, an analyst at Dean Witter Reynolds. "Essentially, the downsizing becomes a non-cash event."

With the stock market continuing to set records, the returns on company pension plans should continue to mushroom. And that means that Corporate America's hidden treasure may become impossible to keep under wraps.

By Suzanne Woolley in New York

INSURANCE

FIRST AID FOR WORKERS' COMP

By hooking up with HMOs, insurers are sharply cutting costs

For years, the workers' compensation business has been an unholy mess: exorbitantly expensive, rife with fraud, and battered with brutal boom-and-bust price cycles that cost insurers billions. Many insurers have quit the business in disgust.

Now all of that is changing dramatically. The $60 billion-a-year industry is being revitalized. A series of state regulatory reforms has relaxed rules that had hamstrung insurers. The change has brought about a number of alliances and mergers among workers' comp insurers and managed-care providers.

Traditionally, workers' comp plans allowed workers to visit any doctor or hospital they wanted, with employers or their insurers picking up 100% of the tab. Currently, medical costs consume nearly 45¢ of every workers' comp claim dollar. But by collaborating with health-maintenance organizations and other managed-care companies, insurers are sharply cutting costs by taking advantage of current penny-pinching case-management and volume-discount techniques. In return, health-care companies receive a generous flow of new customers for their sprawling but underutilized networks of doctors and other health professionals. "It's the most dramatic period of change I've witnessed since I've been in the business," says Executive Vice-President Thomas Ramey at Liberty Mutual Insurance Co.

PARTNERSHIPS. The leader in this trend has been California. In 1993, the state passed a series of legislative reforms that effectively opened up the state's comp system, allowing HMOs to freely link up with insurers. Competitors are now quoting risks at 30% to 40% off published rates. Early this year, the State Compensation Insurance Fund, made up of 255,000 policyholders, allied itself with the state's leading managed-care company, 4.6 million-member Kaiser Permanente. The deal brings together the state's largest comp and managed-health-care providers.

Deals to link big insurers with health-care networks are flourishing: ITT Hartford Group Inc. formed partnerships with a subsidiary of US Healthcare Inc., while CIGNA Corp. has teamed up with Community Care Network, a big California medical network specializing in occupational health injuries. HMOs such as Foundation Health Corp. are buying up regional workers' comp insurers. "I see the shaping of a new industry," says Ron Williams, executive vice-president of network services at Blue Cross of California, which bought UniCARE, a state workers' comp carrier, in 1994.

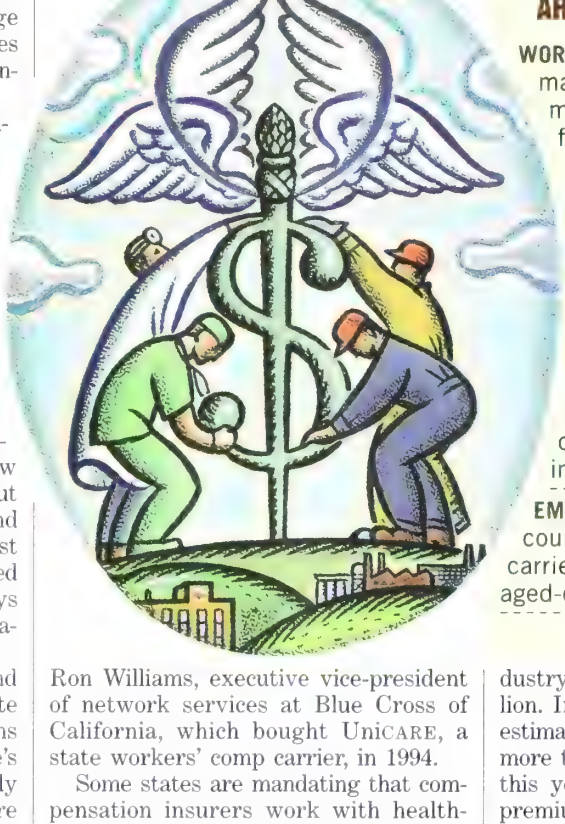
Some states are mandating that compensation insurers work with health-care providers. In Florida, all employers must offer some form of managed care for comp claims by January. In that state alone, Liberty claims savings of $106 million from using managed care since 1994. In Connecticut, companies that offer managed care to cover workers' comp can force their employees to seek out company-approved doctors. Arkansas requires that workers who are out of work for more than five weeks with an on-the-job injury must submit to a claim review by an independent n

Cost savings to companies have substantial. Some insurers are offe employers who sign up discounts of where from 5% to 10%. At Coca- Bottling Co. of New York, the com paid an average $3,164 in comp clai 1989, when it turned to managed and addressed long-standing safet sues in its plants. Today, its ave comp claim is $1,257—a 60% reduc Prior to the change in approach, "t was not a lot of focus at the com about what was happening," says garet Hill, director of risk manager

RAKING IN BILLIONS. The restructu have also been a bonanza for the insurance industry. During the 1980s and early 1990s, when the market was severely depressed, th dustry's combined losses topped $4 lion. Insurance analysts Conning & estimate that comp insurers should more than $4 billion in operating pr this year even as the total volum premiums shrink due to falling pr "There's been a remarkable turnar in workers' comp," says William D. er, president of the National Counc Compensation Insurance, which h set workers' comp rates nationwid

For the health-care industry, aged care proved a valuable, albeit troversial, tool for cost-cutting. Worl comp is likely to benefit hugely fr strong dose of the same medicine.

By Tim Smart in Hartford, Nanette Byrnes in Los Angeles



WHY INSURERS AND DOCTOR ARE GETTING IT TOGETHER

WORKERS' COMP INSURERS need managed-care operations to medical costs, which accour for about 50¢ of every com claim dollar

HEALTH-CARE PROVIDERS ne a constant stream of customers for their sprawling networks of doctors and hospitals

REGULATORY REFORMS in suc key markets as California a Florida are forcing insurers offer managed medical care injured workers

EMPLOYERS are winning discounts of up to 10% from com carriers who have formed managed-care alliances

DATA: BUSINESS WEEK

HE STAMPEDE TO FINANCE NDONESIA INC.

ivatizations have thrown Wall Street firms into close combat

was one of the biggest plashes in Jakarta's finan- ial circles in some time. s January, Merrill Lynch & opened a 9,000-square-foot ce in the glitzy, 32-story er that houses the new Ja- ta Stock Exchange. Curi- ly, though, the expensive ce space had remained pty for a year while Mer- s bankers worked out of Grand Hyatt Jakarta. Mer- says its staff was too busy h two big privatization ls to move earlier. But rces say Merrill had an- er motivation for delaying. firm was initially unsure ether to make a big commitment to onesia and wanted to keep its op- ns open. Yet it wanted to appear re committed than competitors, espe- ly archrival Morgan Stanley & Co., ch didn't have an office in town. s, in a country where perception is ost as important as reality, Merrill ned up for the high-visibility space h great fanfare but really waited a r before it took the plunge and ac- lly opened its office.

SHIVERS: NEW MARKETS, NEW BALL GAME

Welcome to one of the fiercest battle- unds in the world for investment ks. Since 1994, Jakarta has been med with bankers scrambling for ne of the largest government privat- ions in Asia. With state-owned com- ies such as Krakatau Steel and Bank gara Indonesia ready to go public in 6 and 40 more to follow, hundreds of lions of dollars in fees are at stake. ere will be lots of money made this r," says Mitchell Shivers, president- ector of Merrill Lynch Indonesia.

ECOM FIASCO. By many measures, rrill Lynch is leading the herd of ll Street firms thundering into Indo- ia. Merrill earned about $17 million ees for the initial public offerings of Indonesian telecommunications firms 994 and 1995. It owns 80% of Merrill nch Indonesia; the rest is held by a npany whose controlling shareholder Hashim Djojohadikusumo, the broth- n-law of President Suharto's second- est daughter. In Indonesia, doing siness with Suharto's relatives is obligatory, since the ruling family has the final say on major business deals.

> Doing business in Jakarta means doing business with the Suharto clan, who are often partners and always have the final say on major deals

Merrill, though, is still blamed by some for the PT Telkom fiasco in 1995. Merrill and three other banks—Goldman Sachs, S. G. Warburg, and Lehman Brothers—won the Telkom deal by forming a consortium of "global coordinators" who told the government that Telkom could raise over $3 billion. Merrill took the juiciest plum in the complex IPO, an issue of American Depository Receipts listed on the New York Stock Exchange, while the other banks worked on tranches on the London and Jakarta stock exchanges.

But a lack of coordination among the underwriters and meager investor interest forced the government to slash the deal almost in half, raising only $1.7 billion. "It was obviously a deal that was overburdened by leadership," says Jack Wadsworth, who heads Morgan Stanley's Asian business. The shares soared 60% in the first three months, making Finance Ministry officials realize they had left too much on the table for investors. And seven Finance Ministry officials were sacked for the IPO's problems.

RUMOR-MONGERING. Merrill is still the investment bank to beat, even replacing Morgan Stanley as financial adviser to Telkom. But Morgan Stanley remains hot on Merrill's heels. Morgan's lawyers are working feverishly to finish a joint venture with a holding company controlled by Suharto's eldest daughter, Siti Hardiyanti Rukmana. It is scheduled to open in 1996. Morgan will own 50%, Tridan will own 20%, and the rest will be held by the Indonesian brokerage PT Makindo. And Morgan's standing also benefited because the firm did not underwrite the Telkom deal. It had insisted on being the sole lead underwriter and correctly told the government that the issue should be kept small. Morgan lost on both counts and settled for a secondary role as financial adviser. But, says Wadsworth, "in hindsight, we got the first prize."

U. S. firms are also squabbling with British bankers, which have been minor players—even though they arrived in the country in the late 1980s. Indonesians favor American bankers because of their access to the rich U. S. capital markets. In retaliation, some British investment bankers have been spreading unsubstantiated rumors of American slush funds that are used for bribing government officials.

Alleged bribery aside, mixing business with politics could become a problem for U. S. investment banks. Suharto, who has ruled since the 1960s, is 74. His death could undermine deals linked to his family. But that is probably years away. With glittering fees up for grabs, the U. S. firms are willing to take that chance.

By Michael Shari in Jakarta

JOCKEYING IN JAKARTA

GOLDMAN SACHS One of four global coordinators of PT Telkom new issue in 1995. Has joint operating agreement with PT Bahana, a brokerage.

LEHMAN BROTHERS A PT Telkom global coordinator.

MERRILL LYNCH Underwrote Indosat in 1994. Also a PT Telkom global coordinator. In January, launched a joint venture with President Suharto's son-in-law.

MORGAN STANLEY Adviser to PT Telkom. In 1996, plans a joint venture with one of Suharto's daughters and PT Makindo, a brokerage.

DATA BUSINESS WEEK

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$70 BILLION UP FOR GRABS?

Foreign firms will soon get a chunk of Japanese pension fur

Japan's national wealth owes a lot more to manufacturing excellence and export might than to skills at managing money. Small wonder, then, that elite Japanese universities turn out few world-class investment advisers. But giving money management little respect is costing Japan dearly. Because of ultraconservative investment rules, sliding property prices, and a stock market that is still down by half from its 1989 peak, Japan's private and public pension funds—with $2 trillion worth of assets—may not have enough cash on hand to support employees when they retire.

Japanese fund managers have failed to reach their goal of an annual 5.5% return on assets since the bubble economy days of 1988, so getting higher returns out of public pension assets is a key concern as the nation ages. That challenge, heightened by recent moves to deregulate the pension business and let foreigners have a crack at winning an increased piece of the action, have money managers—such as Goldman Sachs, Morgan Stanley, J.P. Morgan, and Britain's Barclays Bank—salivating. "This is a real watershed," says John R. Thomas, president of J.P. Morgan Trust Bank Ltd. He thinks foreign money managers could get up to 10% of Japan's $700 billion in corporate pension business in five years, up from less than 1% now. That could bring foreigners some $700 million in annual revenues.

CASH-STRAPPED. Driving this enthusiasm are moves by Japan's Ministry of Finance to break the virtual monopoly on fund management enjoyed by life insurers and trust banks. The ministry plans to open half the pension market to new competitors from both Japan and overseas in April; the rest of the market will become available by 1999. The ministry acted after the U.S. persuaded Japan in 1994 to deregulate pension fund management.

Other forces, too, are reshaping the nation's pension management business. In January, Japan's cash-strapped life insurers, which manage 40% of corporate pension assets, announced that starting in April they would lower guaranteed annual rate of return fr meager 4.5% to a paltry 2.5%. good reason: Insurers are burdene $50 billion in bad debts from Ja collapsed property market, estim IBCA Ltd. analyst Koyo Ozeki.

News of the downgrade went like day-old sashimi. The Empl Pension Insurance System, or *Nenp* Japan's biggest pension fund with billion in assets, immediately annou

THE BATTLE TO MANAGE JAPAN'S BILLIO

THE MARKET By 1999, overseas money managers will be given a shot at managing part of $700 billion in Japanese corporate pension funds.

THE CHALLENGE Fed up with dismal returns, pension funds are already shifting money from Japanese life insurers that do inate money management. Locals are gett that business. But some 160 foreign firms including Goldman Sachs, J.P. Morgan, ar Barclays Bank, also want in.

THE PAYOFF J.P. Morgan believes foreign firms could grab up to 10% of the corpora pension market, worth some $700 million annual revenues.

DATA: BUSINESS WEEK

plans to yank $47.6 billion away fro surers. It hasn't said who will get dough, but foreigners expect to re some of it. They are heartened by system's recent move to steer $285 lion apiece to Goldman Sachs & Co. Morgan Stanley & Co.

Japanese competitors aren't sit still while the foreigners gear up surers are beefing up money-man ment arms to retain business, and mura Securities Co. is vying for fruits of deregulation. But given gap in Japan's pension system, for money managers will probably g hard look. "Competition is the only for efficient asset management," knowledges Takumi Gunji, head of *puku*'s management planning offic foreigners introduce a healthy dos competition to Japan's pension man ment business, their shareholders— the retirement savings of the Japa public—might both be better serve

By Brian Bremner, with Yoko bata, in Tokyo

GENE G. MARCIAL

ARGAINS: DRUGS, RUISES, TIN CANS

lot of people complain that the ram-paging market offers few good ys. "Bunk," says Carol McMurtrie, a naging partner at Loomis Sayles, ich steers $44 billion in assets.

If you look in the right places for nart" stocks, bargains abound, she ues. Three picks: Eckerd (ECK), the ion's third-largest drug chain, with re than 1,705 stores in the Southeast l Texas; Carnival (CCL), which oper-s about 20 cruise ships; and Crown rk & Seal (CCK), a maker of metal l plastic packaging products.

These companies, she explains, have ovative managers and snappy pros-ts. "I'm always looking for value," s McMurtrie—and Eckerd, Carni-, and Crown Cork all have "unrecog-ed growth potential and underpriced ets."

Loomis Sayles analyst Lauren Allan-ith says Eckerd's Sunbelt markets e "the strongest long-term earnings-wth potential." And the fierce compe-on in drugstores has forced many in-endents and small chains to sell out larger operators.

Allansmith thinks Eckerd itself is a ential buyout target. "It could be uired by Rite Aid, whether or not e Aid's proposed acquisition of Rev-goes through." Rite Aid has little sence in the Sunbelt.

Now at 47, Eckerd stock is worth at st 55, figures Allansmith, based on earnings projection of $3.41 a share

For 'Underpriced Assets':

	STOCK PRICE	P-E (1997 EST.)	TARGET PRICE
CKERD	47	14	55
ARNIVAL	28	13	38
ROWN CORK & SEAL	49	13	60

DATA: BLOOMBERG FINANCIAL MARKETS, LOOMIS SAYLES CO.

the year ending Jan. 30, 1997, up m the $2.99 estimate for fiscal 1996. In the cruise business, competition s also been stiff, but Carnival, which s 28% of the market, continues to engthen—as its rivals get out of the ter or are acquired by larger compa-s. Some analysts think Carnival's jor stake in Kloster Cruise may en-e it to acquire its Norwegian Cruise Line. Jay Pearlstein, an analyst at Loomis Sayles, sees Carnival's stock, now at 28 a share, hitting the high 30s this year. He expects Carnival to make $2.15 to $2.20 next year, a leap up from 1996's estimated $1.80 and 1995's $1.59.

McMURTRIE: *Look in the right place*

McMurtrie says it's hard for a mundane packaging maker such as Crown Cork to "look like a sexy investment play," but it's poised to be the world's largest packaging company—after its acquisition of CarnaudMetalBox, a French packager.

The acquisition gives Crown Cork added bargaining power, says Allansmith, with its giant global customers, such as Coca-Cola, and with raw-material suppliers, such as Eastman Chemical. Now at 49, the stock should hit 60 in a year or so, says Allansmith. Analysts expect Crown Cork to earn $2.65 this year and $3.75 a share in 1997.

A FAMILIAR IMAGE ON THIS X-RAY?

Three years ago, Diasonics broke itself into three companies. One of them, OEC Medical Systems (OXE), is now trading on the Big Board at 10 a share. Some investors are betting that OEC Medical is the target of a larger medical-equipment company. Indeed, one of the products of the split-up, Diasonics Ultrasound, was acquired by Israel's Elbit in late 1994.

OEC Medical, which makes computer-based medical devices—primarily X-ray imaging systems—had an informal offer last year from a major medical-equipment company, says one investment manager. But OEC and the suitor couldn't agree on a price.

Now, he thinks the suitor has decided to come back to the table. OEC is a lot more attractive buyout target today, he argues, with practically no debt and with lots of cash on hand. In a buyout, the pro figures OEC is worth 17 to 19 a share.

The company has been expanding its product line. OEC currently makes urological X-ray systems that combine radiographic and fluoroscopic imaging with digital imaging-processing capabilities used by hospitals and outpatient and surgical centers. It has subsidiaries located in France, Germany, Italy, and Switzerland.

OEC recently signed a $10 million, two-year contract with Columbia/HCA Healthcare to supply mobile fluoroscopic imaging equipment—known as mobile C-arms—and urological imaging tables.

One analyst expects OEC Medical to post earnings of $1.30 a share next year and $1.10 this year, vs. last year's 94¢. OEC Chief Financial Officer Randy Zundel says the company is aggressively scouting for acquisitions, but he declined comment on rumors that OEC is a buyout target.

ALL EYES ARE ON LeBOW HERE, TOO

Is Ben LeBow in or out? No, we aren't talking about RJR Nabisco. We mean his big stake in a much smaller company—MAI Systems (NOW), a provider of customized information systems to small and midsize factories, hotels, and casinos. According to an MAI registration with the Securities & Exchange Commission in November, LeBow was going to sell his 2 million shares—a 29.2% stake. As it turns out, he did no such thing. In late February, LeBow announced he had sold 297,000 shares—at 6½ to 7⅝ a share—dropping his holding to 24.7%. Some investors are intrigued. They know LeBow will not unload at a low price. So they want to stay tuned and possibly reap a windfall—as they suspect LeBow will do when he makes his move.

LeBow became chairman of MAI in 1984 and was CEO from 1990 to 1993, when the company went into Chapter 11. MAI emerged from bankruptcy in 1994 after a court-assisted restructuring. Lebow resigned from the board in December, 1994. Some pros speculate LeBow may be waiting to sell his shares to a big investor who wants to be a key stakeholder. If so, the stock could head higher.

Oppenheimer analyst Steven Major has a price target of 12 for the stock, based on a price-earnings ratio of 15 and his 1996 estimate of 81¢ a share. "Our estimate could prove conservative if the market accords MAI a higher p-e, based on the company's potential sales and earnings-growth rate," says Major. MAI's advantage, he says, lies in its 5,000 loyal customers dating back 35 years.

"I VIRTUALLY DO": *Furukawa che out a WorldsAway online weddin*

THE INTERNET

FUJITSU GETS WIRED

It's staking its future on cyberspace's still hazy frontiers

Nothing could be more "California" than a cyberspace wedding. Last Valentine's Day, groom Joseph Perling sat on Venice Beach with a laptop. His bride Victoria Vaughn logged on from Hollywood. The Reverend R. John Perling, Joseph's father, presided from his Beverly Hills church. As friends logged in from around the country, the couple assumed online personas and exchanged lawful vows.

The virtual chapel was part of CompuServe Inc.'s WorldsAway, a hip cyberhangout that has become one of the 20 most popular forums on CompuServe. And guess what? It's owned and operated by Japan's Fujitsu Ltd.

Once a flat-footed follower of more with-it U. S. companies, Japan's No. 1 computer maker and the No. 2 in the world—behind IBM—is staking its future on the shimmering, still elusive frontiers of cyberspace. By 1998, the $34 billion company aims to get as much as 30% of its revenues from Internet-related services, software, and hardware. Fujitsu's tough 64-year-old President Tadashi Sekizawa is plowing nearly half the company's $3.6 billion research and development budget into the Internet and multimedia. If his plan works, Fujitsu—not Sony Corp.—may be the Japanese electronics giant to take on America's Internet warriors.

Fujitsu will need more than m This is a company that still gets 7 its revenue in its home market— has not done well selling computers side Japan for years. To change management is trying to break o its gray-suit syndrome. "We nee overhaul the company," says b director Tatsuzumi Furukawa, Fuj point man on cyberspace and a l successor to Sekizawa.

Already, clusters of researchers engineers are emulating Silicon V entrepreneurs. They choose t hours, dress however they want, pursue their own projects. The co ny that once balked at buying co nents from outsiders now realiz can't compete by building everyt in-house. It imports close to $2 bill year in Asian components. One re Fujitsu has staged a dazzling t around in the Japanese PC market

Now, Fujitsu's youthful staff is o prove that—contrary to the reco the past decade—it can compete in moving computer markets around world. In the networked era, argue, Fujitsu's combinatio

UJITSU'S GROWING ARSENAL OF INTERNET PRODUCTS

WARE

E A new atabase nd uilt from f soft- e called ideally the Net- siness.

FFICE A re" similar Notes, d by ICL unit .

ranslaware that own- om the de Web to trans- nese ts into

HARDWARE

PERSONAL COMPUTERS Fujitsu is making a strong push into PCs, hoping to master network software and services.

PLASMA DISPLAYS Fujitsu leads the world in these wall-hanging displays. They'll serve as TVs and computer monitors in future homes.

ATM SWITCHES Fujitsu is a leader in these ultrahigh-speed telecom switches. They may be the backbone of the Info Superhighway.

SERVICES

WORLDSAWAY An online chat area on CompuServe in which cybernauts don animated human forms, called avatars, and interact in graphic chat rooms.

NIFTY-SERVE Japan's oldest and largest online service provider, it boasts 1.5 million subscribers and is growing rapidly.

INFOWEB Japan's Internet access providers still lag behind those in the U.S., but Fujitsu got in on the ground floor.

DATA COMPANY REPORTS

ngths—in semiconductors, com- ers, and telecom—will pay off. One mple: Fujitsu beat out the world's makers of digital-phone switches IBM for a contract to provide high- ed switches for a state-sponsored work in North Carolina.

LL TVs. Fujitsu's labs boast an ar- of next-generation components. pfrogging rivals, it is getting set to out 42-inch-wide, flat-screen plasma lays that could become the world's commercial wall-hanging television . The company has invested about 0 million to build a plant in southern an to crank out the screens, be- ning this October. They cost 00 each now, but Fujitsu pre- s prices will drop and plasma ens will start to replace cath- -ray tubes in TVs, creating a billion business by 2000.

The company has some cutting- e software, too, including an ect-oriented database program. ently it struck a deal with Com- er Associates International, the 3 U.S. software maker, to sell mine, a programming system t's based on its database pack- . Jasmine is aimed at developing lications such as online shopping areas for the World Wide Web. Fujitsu is also readying some dazzling network software—from virtual-reality games to business applications for the Web.

Fujitsu does face crucial challenges. U.S. mainframe maker Amdahl Corp., in which Fujitsu holds a 43.5% stake, is steadily losing share to IBM. British subsidiary ICL is performing poorly, too.

On the other hand, Fujitsu's Japanese business has turned around smartly (chart, page 112). Thanks to a massive nationwide splurge on technology, the company is expected to report $571 million in earnings for the year ending Mar. 31—up 33% from $429 million. Sales are expected to come in 11% ahead of last year's $31 billion. Morgan Stanley & Co. estimates Japan's spending on information and telecommunications gear and services will expand from $294 billion in 1993 to $619 billion in 2000, which should keep Fujitsu humming.

A crucial source of profits at home is Fujitsu's 16,000 system engineers who can cobble together networks for Fujitsu and non-Fujitsu products. Since Fujitsu is a trusted supplier to giants such as Toyota Motor, Mazda Motor, and Nippon Telegraph & Telephone, it has a leg up on rival suppliers when these customers start experimenting with new computing concepts, such as "intranets"—internal Web sites.

Another asset Fujitsu can leverage on the Net is NIFTY-Serve, its 10-year-old online service. Some 1.6 million Japanese now log on regularly, and the number could hit 2.3 million by yearend. That service relies on a high-speed network, FENICS, that Fujitsu developed for mainframe clients. Now it wants to expand FENICS directly to North America and Southeast Asia. Fujitsu already runs CompuServe's online services in Australia, Korea, and Taiwan.

Fujitsu also figures it can use some of its mainframe software on the Net. That's where Jasmine got its start—as part of a project with Mazda Motor Corp. "It's wrong to think that the mainframe world is simply being eaten away by PCs," Furukawa argues. "Rather, the question is how PC users can get the most from assets developed for mainframes."

VIRTUAL SCHOOL. Fujitsu, which already has a $1 billion telecom equipment business in the U.S., is counting heavily on the North Carolina contract to prove its leadership in new technology—just as U.S. phone companies are planning massive upgrades. For a decade, Fujitsu, NEC, and Hitachi have been funneling billions of dollars in R&D funds into a high-speed switching technology called "asynchronous transfer mode," which handles images, sound, and text with equal ease. But getting ATM beyond the lab has been tricky. In North Carolina, engineers from BellSouth, Sprint, and GTE picked Fujitsu over AT&T, Northern Telecom, and others for the contract to wire schools, government offices, hospitals, and prisons with ATM gear. Fujitsu's price was "extremely competitive," according to one source.

Today, the highway is a highly visible showcase of Fujitsu technology, linking 74 schools and hundreds of other sites. Students can attend class remotely at the state's top universities by using video terminals. "We're at the forefront of fiber-optic technology," says John Friedrick, executive director of the North Carolina School of Science & Mathematics in Durham. "We've had visitors from South America, Israel, Australia, and South Korea."

To keep on the cutting edge, Sekizawa continues to push a cultural revolution. "We have to discover a whole new path," he says. At the Tokyo development center

MULTIMEDIA MAN: *CEO Sekizawa is plowing billions into R&D*

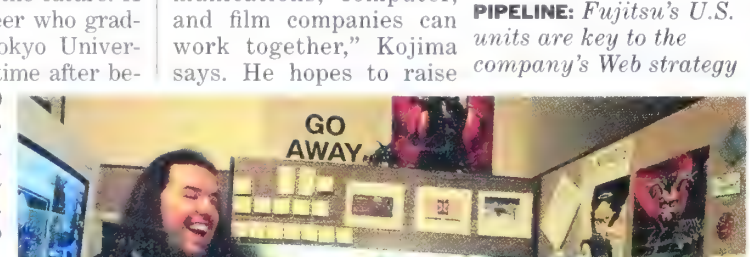
of Shuzo Morita, director of Fujitsu's thrust into new computer interfaces, long-haired hackers and animators work with staid engineers to create games and 3-D software domains beyond the cartoonish spaces of WorldsAway. Some contain exotic creatures that evolve and interact with humans onscreen.

SLASHER. Despite his 42-year tenure at the company, Sekizawa may be just the man to force Fujitsu into the future. A telecommunications engineer who graduated from prestigious Tokyo University, Sekizawa wasted no time after becoming president in 1990 to shake things up. He hacked away at an organization that had grown fat during Japan's 1980s boom. A dour taskmaster who seldom expresses satisfaction to the troops, he has cut nearly 10% of the parent company's workforce since 1993. He also created a flatter management structure and links pay to performance.

One of his most crucial decisions was promoting "open systems," which let customers mix hardware and software from different vendors. He also stepped up overseas sourcing and assembly. The result: a less arrogant, more flexible, market-oriented company. "The company has gotten leaner, and now they're addressing the areas of growth," says Barclays de Zoete Wedd analyst David Benda in Tokyo."They've got a very good chance of making it."

Under Sekizawa, Fujitsu has also made some astute buys and recruited new talent. WorldsAway, for instance, was developed in 1986 by Lucasfilm Ltd. of the U. S. Fujitsu acquired the idea and hired Lucasfilm developers. The operation is now run by Fujitsu's subsidiary in San Jose, Calif. More than 15,000 subscribers now log on in 147 countries. "I have a lot of respect for what Fujitsu has been doing in this area," says Linda Stone, director of Microsoft Corp.'s Virtual Worlds Group, which is promoting a similar product.

Nerdy even by Japanese standards, Fujitsu "doesn't even have employees who can talk about movies," concedes Furukawa. Still, Fujitsu wants "content." It invested $50 million in a major Japanese film studio, Shochiku Co. And Kazuto Kojima, director in charge of the digital media group, has been visiting the world's great content factories in Europe, Asia, and Hollywood, including 20th Century-Fox Film Corp. and Paramount Communications Inc. "I'm not interested in investing big money. I'm just seeing whether there's any way that telecommunications, computer, and film companies can work together," Kojima says. He hopes to raise Fujitsu's content business to $100 million by 1998.



PIPELINE: *Fujitsu's U.S. units are key to the company's Web strategy*

Fujitsu's biggest gamble is its bid for PC market share—something most Fujitsu managers call critical to its success in cyberspace. Its first stab at a multimedia PC, FM Towns, was brilliant technically, but never took off. So in 1993, Fujitsu joined other Japanese PC makers selling machines compatible with DOS V, a Japanese-language version of Microsoft MS-DOS that runs Microsoft Windows.

Fujitsu's real assault came a year later. It dumped many longtime Japanese suppliers for American and Southeast Asian rivals that sold co nents for 20% to 30% less and b building peripherals such as disk d in Thailand and assembling finishe in Taiwan. In many of its PCs, than 90% of the parts are now Japanese.

The overhaul lowered costs. T Fujitsu plowed hundreds of millio dollars into advertising and distr tion. Today, analysts reckon Fujit losing $300 on each $2 machine it sells—ad up to more than $1 mi each day. The payoff: year Fujitsu double Japanese market sha 18.2%, becoming the vendor after NEC C according to Dataq Inc. Fujitsu aims to 2.5 million PCs in J this year and 5 mi units, for a 30% sh by 1998.

Competitors who d the company will keep up should study Fujitsu has done befo used lowball bids for ernment contracts, instance, to push past in Japanese mainfra It once raised a sti submitting a bid of one yen to win a computer software tract. It's ready to be tough in PCs, too. PCs the key to "network vices, the Internet, software sales," exp Furukawa.

Will it also jump the U. S. PC brawl? F su recently created a U. S. personal comp operation and opene assembly plant in H boro, Ore. But a spo man says the company will tak slowly in the crowded U. S. mark

Ultimately, of course, not al Fujitsu's gambles will pay off. It yet to lay out its plan to revive overseas mainframe operations take on systems integration gi such as IBM outside Japan. Still, no er Japanese giant has marshaled resources—or embraced the vision fight so boldly in the battle for cy space.

By Steven V. Brull in Tokyo, Robert D. Hof in San Francisco, J Flynn in London, and Neil Gros New York

Trevino

Snead

Rodriguez

Palmer

VS.

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EDITED BY EDWARD C. BAIG

YOU DON'T HAVE TO PUT UP WITH THAT POUNDING HEAD

Ouch! Furrowing their brows and popping more than $1 billion in over-the-counter pain relievers every year, chronic headache sufferers make up 20% of the population in the U. S. According to the American Society for the Study of Headache (609 845-0322), the country is in the throes of a cranial crisis that costs about $50 billion a year in absenteeism and health care, not to mention lost productivity.

What's causing all this brain pain and associated financial drain? "There are a lot of theories out there about what causes headaches, but no one really knows for sure," says Dr. Seymour Diamond, director of the Diamond Headache Clinic and executive director of the National Headache Foundation (800 843-2256). Basically, common headaches occur when blood vessels swell or muscles contract, aggravating nerves inside and around the skull. But exactly why those blood vessels and muscles get out of whack is open to debate.

STRESS. Experts generally agree that headaches are an inherited tendency, triggered by predictable factors. Stress is a prime provocateur, whether a person is plagued with the sharp pain on one side of the head associated with vascular (migraine) headaches, or the dull, generalized pain typical of a muscular (tension) headache. Everyday pressures are enough to dilate blood vessels, tense up muscles, or both, in a "fight or flight" response. "The body primes itself to react in stressful situations as if it was in immediate physical danger," says Dr. Robert Ford, director of the Ford Headache Clinic in Birmingham, Ala. When no fight or flight ensues after a child or a boss quits screaming, there is no release, and a headache results in those who are genetically predisposed. Experts hope to isolate the chromosome associated with headaches in the next two years. "You can be stressed out to the max and never get a headache, if it's not in your genes," Ford says.

Stress also affects the production of serotonin, a chemical that controls blood flow in the brain. Many researchers believe low levels of serotonin in the brain stem go hand-in-hand with headaches. "The brain stem is the seat of emotional activity, so you can see how anxiety and stress would have a significant effect on its chemical equilibrium," says Dr. Paul Duckro, psychologist and clinical director of the Chronic Headache Program at the St. Louis Behavioral Medicine Institute. But headaches are not a purely psychological malady, Duckro says, because "stress merely aggravates a condition the patient already has due to his or her genetic makeup."

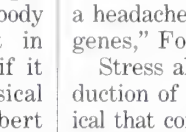
Life's constant changes can also trigger headaches. Changing weather patterns, altitude, lighting, disruption of eating or sleeping schedules, and a variable workload (the phones are dead, or the phones are ringing off the wall) can all bring on a headbanger by upsetting the balance of serotonin in the brain.

Chemicals found in certain foods and drinks may also tip the c bral apple cart. For exa amines—substances fou chocolate, dark liquors, aged cheeses—can be, a pain in the head. So monosodium glutamate caffeine in excess of 200 or the equivalent of a two cups of coffee per Nitrates and nitrites, pr vatives that are comm added to hot dogs, sa and bologna, are equally ious and can caus headache within an hour eating them.

KEEP ROUTINES. Kno what provokes the casca events that leads t headache is only half the tle. Taking steps to ch your lifestyle is the o Since stress is a prime prit, learning how to rel key. Specialists urge p tients to engage in relaxation exercises daily. This doesn't mean having to sit for hours in the lotus position surrounded by candles. It ca as simple as periodically ing five minutes to stare the window. "Do what works," says Dr. Seym Solomon, director of Headache Unit at Monte Medical Center in the B "It doesn't have to be h bly involved." Among th laxation techniques Sol recommends are biofeedb in which sensors attache the forehead emit sounds taper off as muscles go s diaphragmatic or d breathing exercises, an sual imagery (imagine are lying on a beach, fee warm sand...).

Besides mellowing headache sufferers sh try to minimize change

YOUR MEAL COULD GO TO YOUR HEAD



Foods that can trigger headaches in some people:

BEVERAGES Dark beer, Chianti, sherry, burgundy, bourbon, brandy, scotch, coffee, tea, and colas

MEAT AND FISH Liver, brains, kidneys, pepperoni, salami, liverwurst, pickled herring, smoked salmon, caviar, corned beef, bologna, sausage, ham, bacon

BAKED GOODS Anything prepared with yeast, mincemeat, or chocolate

CONDIMENTS Soy sauce, Worcestershire sauce, chili sauce, mustard, miso, pickles, sauerkraut

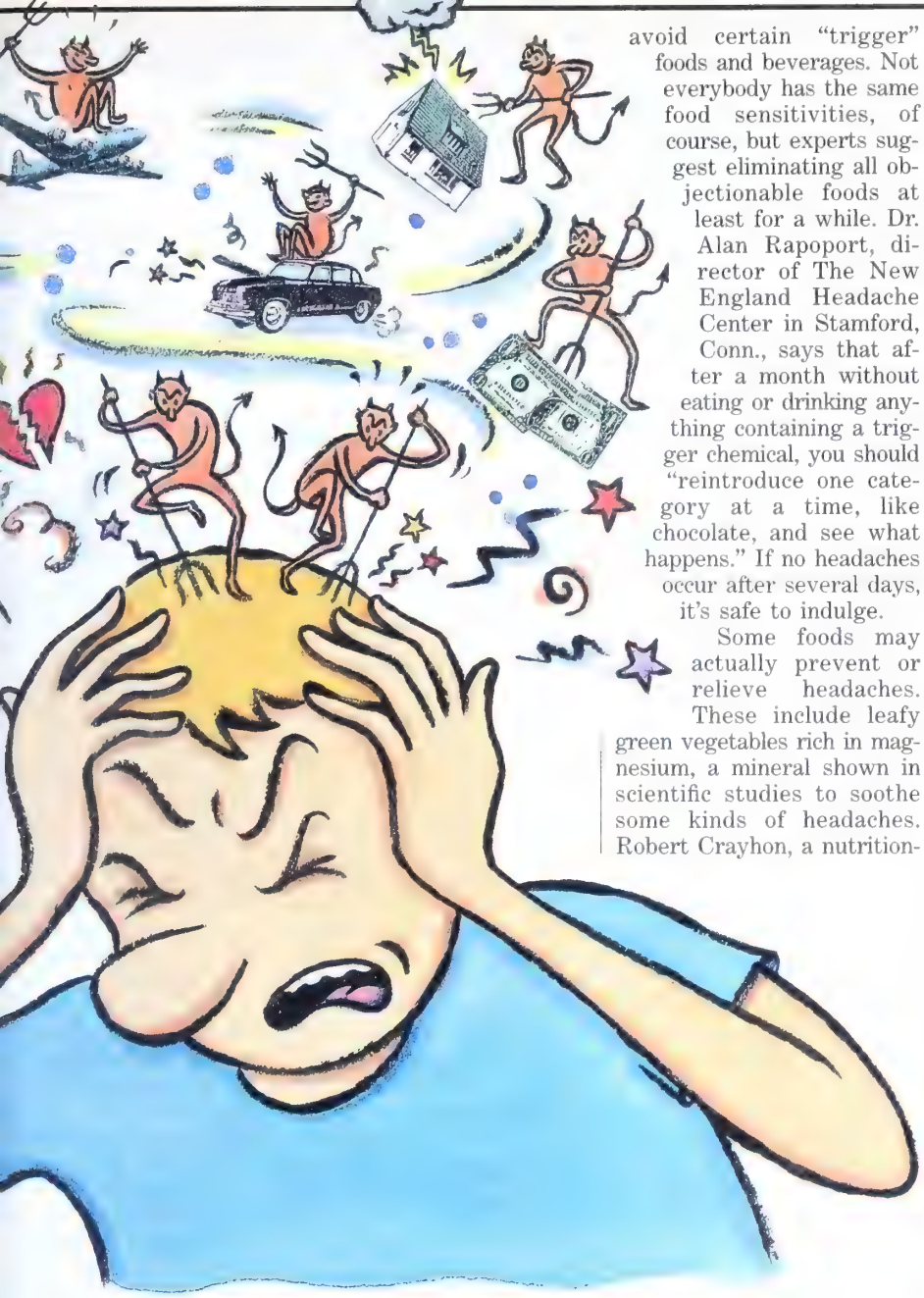
DAIRY Sour cream, yogurt, and many cheeses, including Brie, cheddar, Roquefort, Stilton, mozzarella, provolone, and Swiss

FRUITS & VEGETABLES Figs, oranges, fava beans, onions

NUTS Peanut butter, pumpkin seeds, sesame seeds, walnuts, pecans

ADDITIVES Aspartame (NutraSweet or Equal) and monosodium glutamate, often found in macaroni and cheese, pizza, and Chinese food

DATA: BUSINESS WEEK



routine. For example, laches often occur on kends when people sleep nd skip breakfast. Dia- d recommends keeping he same schedule seven a week. If there's no ding a late Saturday, he , "get up at the same the next morning any- eat breakfast, and then ack to bed if you have Try also to structure the xday so that potentially ssful events—a perfor- ce review, perhaps—oc- in the morning. "If you stressed out at the end he day and then go e, that's a huge change in stimulation," says Dr. Egilius Spierings, director of headache research at Brigham & Women's Hospital in Boston. But a full day of work after a difficult meeting allows you time to gradually unwind.

On the diet side, headache specialists say it's best to avoid certain "trigger" foods and beverages. Not everybody has the same food sensitivities, of course, but experts suggest eliminating all objectionable foods at least for a while. Dr. Alan Rapoport, director of The New England Headache Center in Stamford, Conn., says that after a month without eating or drinking anything containing a trigger chemical, you should "reintroduce one category at a time, like chocolate, and see what happens." If no headaches occur after several days, it's safe to indulge.

Some foods may actually prevent or relieve headaches. These include leafy green vegetables rich in magnesium, a mineral shown in scientific studies to soothe some kinds of headaches. Robert Crayhon, a nutritionist in New Rochelle, N. Y., and host of *Alternative Medicine for Total Health*, shown on the American Independent Cable Network, says leafy greens such as kale and spinach are also full of chlorophyll, which "may eliminate chemical toxins that build up in the body and cause headaches." Crayhon recommends eating cold-water fish such as salmon and albacore tuna as well because their essential oils have a natural, long-term anti-inflammatory effect.

BOOMERANG. Once the head begins throbbing, researchers in England have found that the feverfew plant, sold in health stores and taken in tablet form or brewed as tea, can provide relief. More traditional, over-the-counter pain relievers might help too, but only if taken sparingly. Experts warn that using popular products such as Tylenol, Bayer aspirin, and Excedrin more than three times a week can in fact exacerbate headaches by inducing the body to produce less of its own natural painkillers. Indeed, when the supermarket analgesic wears off, the headache may seem twice as severe.

There are other remedial strategies. Some people place cold packs on the head to treat vascular headaches and heating pads on the neck and shoulders to deal with muscular headaches. Spierings at Brigham & Women's says many of his patients swear by "putting one of their hands in ice-cold water and keeping it there for as long as possible."

Most experts prefer to treat common headaches without drugs, but if an attack is incapacitating, a prescription may be necessary. There are medications that mimic serotonin in the brain, block nerve signals, open blood vessels and relax muscles. But these drugs should be viewed as the "big guns" that are rolled out only in extreme situations, according to Rapoport.

Almost no one should have to live with head pain. Although the understanding of headaches is far from complete, there is more than enough known to substantially improve the quality of most headache sufferers' lives. That's heady news, indeed. *Kate Murphy*

HEALTH You can be stressed to the max and not suffer "if it's not in your genes," says one doctor

SURFING THE NET FOR BETTER RETURNS

Brian Bollaert got so excited about the 6.1% interest rate on a six-month certificate of deposit a month ago that he immediately slapped about $40,000 into an account and bought the high-yielding CD. Good move when you consider that average six-month CDs are yielding just 4.55%. The catch? Bollaert could only buy the CD over the Internet.

Security First Network Bank, the bank that offered the cyber-CD, and a handful of other financial companies aim to harness the operating efficiencies of the Net to reduce the costs of selling and servicing financial products. The savings are passed on to consumers in the form of higher interest rates.

SMALLER PLAYERS. At the moment, there is just a trickle of investments specifically designed and priced for sale over the Internet. These include a fixed annuity recently launched by Liberty Financial Cos.' direct-marketing arm, Independence Life & Annuity (formerly Crown America Life Insurance Co.), and four federally-insured CDs that can be bought at four banks: 1st Source Bank, La Jolla Bank, Salem Five Cents Savings Bank, and Security First Network Bank. "Easy-to-understand, low-risk investments that need little maintenance, such as CDs and fixed annuities, make good products to sell over the Internet," notes Rick Adkins, a financial planner in Little Rock. All these product sites on the World Wide Web can be accessed with a standard Internet browser.

"These new products are opening up a new distribution channel and expanding market share for the smaller players," says Allen Wolpert, an Andersen Consulting managing partner. Indeed, Salem Five Cents Savings, a small regional bank in Salem, Mass., has CD clients in New Zealand and Tokyo.

SMART MONEY

No Place but Cyberspace

COMPANY/WEB SITE	PRODUCT
1ST SOURCE BANK http://www.pawws.com/1stsource	CERTIFICATE OF DEPOSIT
INDEPENDENCE LIFE & ANNUITY http://www.websaver.com	SINGLE PREMIUM DEFERRED ANNUITY
LA JOLLA BANK http://www.ljbank.com	CERTIFICATE OF DEPOSIT
SALEM FIVE CENTS SAVINGS BANK http://www.salemfive.com	CERTIFICATE OF DEPOSIT
SECURITY FIRST NETWORK BANK http://www.sfnb.com	CERTIFICATE OF DEPOSIT

DATA: BUSINESS WEEK

Those foreign customers are among the thousands of do-it-yourself investors who thrive in the virtual corridors of cyberspace—the perfect locale for people who enjoy fiddling with their investment portfolios any time of day or night, without worrying about whether an operator will be there to answer a toll-free telephone call.

Yet, because of well-publicized concerns about Internet security, some things are still handled the old-fashioned way. Customers download an application for the CDs or annuity from the Net and then send that—plus a check—through the post office. No credit-card numbers are posted online. To view account information, Liberty's annuity customers, for instance, use a special access code, similar to those used at an automated teller machine. Even if hackers discover the code, they can't get their mitts on your money. Liberty will not dispatch account statements by E-mail until Internet messaging is more secure.

Are savvy financial institutions using the Internet as a marketing gimmick, or are the costs of these newfangled investments actually lower? The CDs are offered at rates that are at least 30 basis points above the annual Bank Rate Monitor Index. "It costs us $150 to set up and maintain a traditional CD," says Michael Fitzgera
Salem Five C
Savings. "We car
tify offering h
rates [online] be
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Marketing exp
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customers come t
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Web. Printing
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EXPERIMENT. With its I
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HAT'S IN A NAME CHANGE? CLASSIER ACURA

n years ago, the ndits at Honda fig- d out that Ameri- ns were so taken Japanese cars that they ld pay more—not less— them. Consequently, a 000 luxury sedan was gned, a network of deal- assembled, and a legend born. The 1986 Acura end, that is.

s the Legend ed in all the ity awards, ricans flocked to car, and sales ed. But Toyota Nissan took l, and in 1989 wed with even upscale brands, us and Infiniti. he new competi- coupled with a ng yen that sent prices soaring, a disastrous ef- Acura sales been falling 1991, prompting Honda uietly revamp its Acura ion. The most visible sig- Acuras are losing their es and getting those for- able alphanumeric desig- ons that all the other im- ed luxury cars carry. Last it launched the near-lux- 2.5TL and 3.2TL sedans the SLX, a sport utility cle. Now it's introducing ew American-built coupe, 2.2CL, and the all-new L sedan.

GER ENGINE. Yup, 3.5RL e name of the new Acu- agship that replaces the end. It's a better car its predecessor, roomier, a bigger V-6 engine and tably quieter interior. At 000, (or $44,000 for a mium version), the 1996 RL costs $3,000 more the base 1995 Legend. l, that's less than the cedes-Benz E-Class and 5-Series cars that it designed to compete against, and it undercuts the big Japanese luxury V-8s—the Lexus LS 400 and Infiniti Q45—by more than $10,000.

The 3.5RL's new engine actually does a pretty good imitation of a V-8. That's because Honda engineers put their effort into developing peak torque at an unusually low 2800 rpm, which gives drivers the most thrust at engine speeds normally used in day-to-day driving. The car is quick out of the starting blocks, and the electronically controlled automatic transmission seamlessly shifts up to freeway speeds. As with most Japanese luxury sedans, the steering is light and the suspension is tailored more for ride than handling.

Inside the cabin, the new Acura flagship has all the usual luxury amenities, and then some. The moon roof is a standard feature, as are leather seats. Especially nifty is an adjustable armrest that pops up from a storage compartment designed to hold either a cellular phone or—a particularly nice touch—a six-disk CD changer. The $3,000 premium package includes heated front seats and heated outside mirrors, real burled-walnut trim instead of simulated wood, and an upgraded Bose cassette/CD audio system. The rear compartment can easily accommodate three adults and has added headroom plus over two inches more legroom than the Legend.

AUTOS

A few minor gripes, however: The front seats are designed more for freeway cruising than winding roads and could use additional lateral support. And Acura could have been more generous with the wood trim, especially on the console, which now features a vast expanse of plastic that houses climate and audio controls.

Exterior stylists took absolutely no risks with the 3.5RL. It's pretty much a generic Japanese car, with the now-familiar Acura front end and a Mercedes-like profile and stance.

That's not the case, however, with Acura's new coupes, the 2.2CL and 3.0CL. The 2.2CL, which hits showrooms this month, will have shoppers either loving or hating the unusual rear end: It curves down to the bumper in a modified V-shape and features a distinctive center crease and a remote control "keyless entry" system for the trunk (there's also the usual manual release next to the driver's seat).

The CL coupes are unusual in another aspect as well. They were both designed and built in the U.S., a first for Japanese luxury cars. With 91% U.S. content, Acura has been able to keep the price more reasonable than a comparable import: The four-cylinder 2.2CL will start at an estimated $22,000, while the six-cylinder 3.0CL, which won't be available until October, should top out around $27,000. A short test drive in preproduction models found the 2.2CL a little sluggish in the passing lane; the bigger engine is well worth the wait.

With the arrival of the new coupes and sedan, Acura will have revamped its entire lineup of four different luxury and near-luxury models in an astonishingly short 12 months. And it has gone a long way toward getting the Acura price-value equation, decimated by the strong yen of the past few years, back on track again. If Acura can stay the course, it might just have another legend in the making. *Larry Armstrong*

SO LONG, LEGEND: *Honda's flagship 3.5RL sedan (above) and the 2.2CL coupe round out its luxury lineup*

OTHER LUXURY CHOICES

CAR	BASE PRICE
BMW 540i	$49,900
INFINITI Q45	$53,520
LEXUS LS 400	$52,900
MERCEDES E320	$42,500

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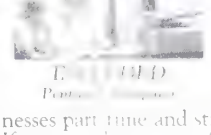

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DUCTION AND LEADING INDEXES

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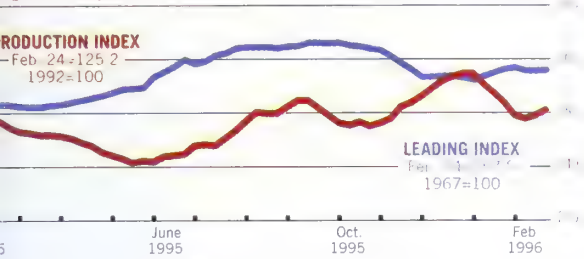
nge from last year: 1.4%

Change from last week: 0.0%
Change from last year: 2.5%



exes are 4-week moving averages

roduction index increased during the week ended Feb. 24. Before calculation of ur-week moving average, the index also rose, to 127.1, from 125.8. Seasonally ed output of autos, trucks, and rail-freight traffic posted gains for the latest week. **eading index** was unchanged in the latest week. The unaveraged index was a bit, to 257.1, from 258.2. A retrenchment in the stock market and r bond yields suggest slower economic growth ahead.

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/2) thous. of net tons	2,085	2,105r#	4.0
AUTOS (3/2) units	122,932	136,086r#	-16.3
TRUCKS (3/2) units	125,639	123,347r#	6.0
ELECTRIC POWER (3/2) millions of kilowatt-hrs.	60,553	59,905#	-0.3
CRUDE-OIL REFINING (3/2) thous. of bbl./day	13,794	13,533#	1.1
COAL (2/24) thous. of net tons	21,246#	21,641	-4.8
PAPERBOARD (2/24) thous. of tons	NA#	NA	NA
PAPER (2/24) thous. of tons	NA#	NA	NA
LUMBER (2/24) millions of ft.	450.2#	435.5	4.1
RAIL FREIGHT (2/24) billions of ton-miles	25.2#	25.2	2.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (3/1) S&P 500	645.45	651.67	33.0
PORATE BOND YIELD, Aaa (3/1)	7.20%	7.13%	-11.7
STRIAL MATERIALS PRICES (3/1)	110.6	110.8	-2.2
NESS FAILURES (2/23)	191	324	43.8
ESTATE LOANS (2/21) billions	$504.4	$507.3	8.0
EY SUPPLY, M2 (2/19) billions	$3,665.0	$3,657.0r	2.2
AL CLAIMS, UNEMPLOYMENT (2/17) thous.	382	381r	11.0

ces: Center for International Business Cycle Research (CIBCR), Standard & , Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/6) $/troy oz.	393.600	397.550	4.0
STEEL SCRAP (3/5) #1 heavy, $/ton	144.50	144.50	2.1
COPPER (3/2) ¢/lb.	120.0	120.4	-12.1
ALUMINUM (3/2) ¢/lb.	74.3	76.0	-15.1
COTTON (3/2) strict low middling 1-1/16 in., ¢/lb	80.28	81.33	-20.8
OIL (3/5) $/bbl.	19.54	19.63	4.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (3/5)	5.13%	5.20%	5.93%
MERCIAL PAPER (3/6) 3-month	5.19	5.16	6.19
TIFICATES OF DEPOSIT (3/6) 3-month	5.17	5.16	6.20
D MORTGAGE (3/1) 30-year	7.69	7.49r	8.72
JSTABLE MORTGAGE (3/1) one-year	5.50	5.39	6.51
E (3/6)	8.25	8.25	9.00

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/6)	105.32	104.44	91.10
GERMAN MARK (3/6)	1.48	1.47	1.40
BRITISH POUND (3/6)	1.53	1.53	1.60
FRENCH FRANC (3/6)	5.05	5.02	4.99
ITALIAN LIRA (3/6)	1557.1	1547.5	1667.5
CANADIAN DOLLAR (3/6)	1.37	1.37	1.41
MEXICAN PESO (3/6)[3]	7.593	7.545	7.150

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

IL SALES

esday, Mar. 13, 8:30 a.m.EST ▶ l buying probably rebounded by 0.5% ruary, says the median forecast of mists surveyed by MMS International, f The McGraw-Hill Companies. Sales .3% in January as the blizzard cut urchases of durable goods. Excluding , February sales likely rose 0.5% after ange in January. The weekly surveys by Mitsubishi Bank/Schroder eim and the Johnson Redbook Service a rise in February retail sales.

E BOOK

esday, Mar. 13 ▶ The Federal Reserve elease its roundup of business activity as reported by its 12 district banks. The beige book is prepared in advance of the Fed policy meetings. The next is scheduled for Mar. 26.

PRODUCER PRICE INDEX

Thursday, Mar. 14, 8:30 a.m.EST ▶ Prices of finished goods likely rose 0.2% in February, on top of a 0.3% increase in January, says the MMS report. The January gain reflected a 2.7% spike in energy prices. Excluding food and fuel, the PPI fell 0.1% in January.

CONSUMER PRICE INDEX

Friday, Mar. 15, 8:30 a.m.EST ▶ The MMS median forecast expects that consumer prices of goods and services rose by 0.2% in February, after a 0.4% jump in January. Energy prices rose, and apparel prices surged by 0.7% in January. But given the intense competition within the apparel industry, that large a markup is unlikely to hold.

INDUSTRIAL PRODUCTION

Friday, Mar. 15, 9:15 a.m.EST ▶ Output at the nation's factories, mines, and utilities likely rebounded after the blizzard. That's suggested by BUSINESS WEEK's weekly production index. The MMS median forecast calls for a 0.4% gain in output last month, after output fell 0.6% in January. As a result, operating rates likely picked up to 82.5%, from 81.9% in January.

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Index to Companies

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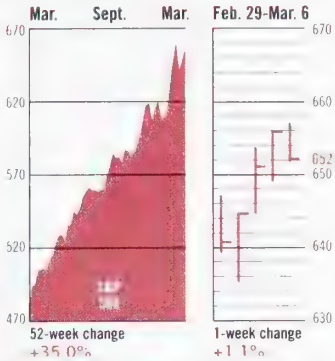
vestment Figures of the Week

ENTARY

g week for U.S. equities, surged to record levels retreating. The Dow Jones ial average climbed 42 to 5642, a record, on Tobacco shares led the , with RJR Nabisco saying d boost its dividend and k shares. But bond fell because of concern e Federal Reserve may rates this month. Unex- y high factory orders also l inflation fears. Comput- stocks led the market downward on Mar. 6.

STOCKS



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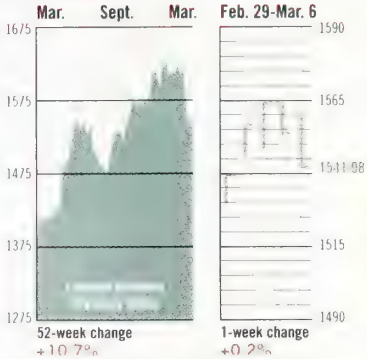

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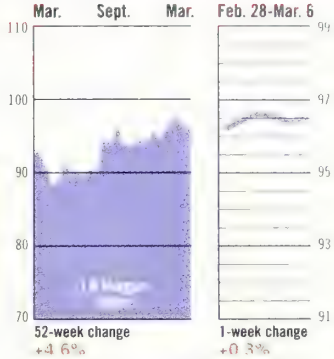


RKET ANALYSIS

TOCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	5629.8	2.2	41.5
E COMPANIES (S&P MidCap Index)	230.4	0.2	29.7
COMPANIES (Russell 2000)	327.1	0.6	28.3
MPANIES (Russell 3000)	371.8	0.9	34.7

GN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
N (FINANCIAL TIMES 100)	3758.9	0.6	25.6
(NIKKEI INDEX)	20,241.2	1.6	21.8
TO (TSE COMPOSITE)	4973.3	0.5	20.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.02%	5.00%	5.92%
30-YEAR TREASURY BOND YIELD	6.46%	6.47%	7.54%
S&P 500 DIVIDEND YIELD	2.14%	2.15%	2.74%
S&P 500 PRICE/EARNINGS RATIO	19.0	18.7	16.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	586.7	583.6	Positive
Stocks above 200-day moving average	72.0%	70.0%r	Negative
Speculative sentiment: Put/call ratio	0.57	0.57r	Negative
Insider sentiment: Vickers sell/buy ratio	1.97	1.96	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
HINE TOOLS	18.5	21.7	CINCINNATI MILACRON	23.1	38.8	28 5/8
AL AND GLASS CONTAINERS	18.2	11.1	CROWN CORK & SEAL	20.5	16.3	49 7/8
ARTMENT STORES	15.1	31.7	FEDERATED DEPARTMENT STORES	29.1	51.4	33 7/8
CIALTY APPAREL RETAILERS	14.4	33.4	CHARMING SHOPPES	68.8	–17.4	5 1/16
LINES	14.3	54.0	SOUTHWEST AIRLINES	19.5	74.3	31 3/8

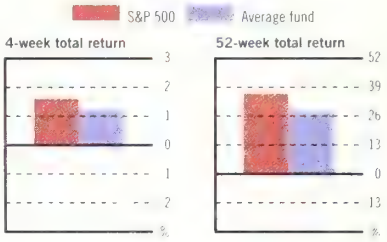
ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
D MINING	–10.2	40.2	SANTA FE PACIFIC GOLD	–17.4	41.7	14 7/8
ICONDUCTORS	–7.8	9.8	LSI LOGIC	–20.7	0.2	27 3/4
EST PRODUCTS	–6.0	2.5	GEORGIA-PACIFIC	–10.7	–13.0	64 5/8
IONAL TELEPHONE COMPANIES	–5.9	31.8	U S WEST COMMUNICATIONS	–9.0	43.2	32 7/8
EXPLORATION AND PRODUCTION	–5.1	–1.5	BURLINGTON RESOURCES	–6.2	–5.3	36 1/8

TUAL FUNDS

MORNINGSTAR INC

ERS veek total return	%
NITREND GOLD	27.7
NEER INDIA A	12.4
ELITY SELECT AIR TRANSPORTATION	10.2
ek total return	**%**
AS	102.3
PRECIOUS METALS A	85.7
NITREND GOLD	84.4

LAGGARDS Four-week total return	%
UNITED SERVICES GOLD SHARES	–12.7
LEXINGTON STRATEGIC INVESTMENTS	–9.7
VAN ECK INTL. INVESTORS GOLD C	–7.7
52-week total return	**%**
STEADMAN TECHNOLOGY GROWTH	–21.6
EV MARATHON GREATER INDIA	–20.6
AMERICAN HERITAGE	–13.8



LATIVE PORTFOLIOS

DRI/McGRAW HILL

amounts represent the nt value of $10,000 ed one year ago ch portfolio

ntages indicate ay total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$13,908	$12,268	$12,265	$10,558	$10,153
+1.32%	+1.07%	–0.48%	+0.11%	–1.17%

a on this page are as of market close Wednesday, Mar. 6, 1996, unless otherwise indi- Industry groups include S&P 500 companies only; performance and share prices are as of market close Mar. 5. Mutual fund returns are as of Mar. 1. Relative portfolios are valued as of Mar. 5. A more detailed explanation of this page is available on request. r=revised

A NEW LOOK AT EMPLOYEE OWNERSHIP

The mood in America is changing. Suddenly, CEOs are taking heat for making millions while employee wages stagnate. Before Washington intrudes with half-cocked solutions, take a look at an old-fashioned idea—Employee Stock Option Plans. ESOPs are no panacea, but in the debate over solutions for wage stagnation, it is one concept that can raise both corporate competitiveness and employee wealth without gumming up the free market (page 96).

Through an ESOP 18 months ago, United Airlines Inc. employees accepted 15% pay cuts in return for 55% of the company. The results so far? Labor costs, down 7%. Operating revenue, up 15%. Pretax operating margin, doubled, to 7.5%. Stock price, up 120%. While other airlines made smaller gains, they fired people. United has hired 7,000 employees since the buyout. The pain was shared, but so was the gain.

The key reason UAL's employee buyout is a success is that CEO Gerald Greenwald did what most other chief executives of ESOP companies do not do: listen to their employee-shareholders. Some 1980s experiments in employee ownership have foundered on bitter executive-employee battles for power. Instead of respecting employees as shareholders, those CEOs insisted on command-and-control management. Because UAL employees were treated as owners, they acted as such—pilots flew longer hours when pilot shortages developed rather than cancel flights. ESOPs are worth a look.

ONE BILLION REASONS FOLKS HATE POLITICS

It may cost $1 billion to elect 470 people to federal office in 1996: one President, one Vice-President, 33 senators, and 435 representatives. That's twice what it cost in 1992. The sums are so huge that elected officials are increasingly beholden to contributors who want political favors in exchange for cash. No wonder voters are alienated.

There are two problems: the total amount of money being spent in campaigns and the huge sums being spent by rich candidates who carpet-bomb their opponents with TV ads. Cutting out "soft money" contributions to the parties can save millions. They supposedly go for building party strength, but invariably help specific candidates. Then, apply the current Presidential campaign-finance system to congressional candidates. Right now, Presidential candidates agree to cap their spending at $37 million for their primary runs, and the taxpayer matches individual contributions up to $250. The taxpayer also picks up the tab for the convention and the national campaign.

A bill extending a form of public finance to congressional races was killed in the Senate by none other than Bob Dole, now receiving matching government funds for his primary run. Opponents decry taxpayer funding for congress campaigns as "welfare for politicians." Our view: Pub nancing is better than special-interest financing.

But what about the rich candidates who spend thei fortunes? Well, actually, they don't. Some borrow n from themselves and then, if elected, go to campaign tributors and request money to pay themselves off. I should be placed on this practice. If people want to ci vent campaign caps, they should really pay for it thems

Here's a sweetener. The networks don't want to pa government for more spectrum. Why not give them so it in exchange for free air time for candidates? That sharply reduce the need for fund raising in the first pl

LESSONS FROM A LANDMARK CASE

This magazine has scored a major victory for the flow of information at a time when government ce ship is growing in the U. S., Europe, and Asia. A feder peals court reinforced the First Amendment right o speech by reversing a lower-court ruling barring BUS WEEK from publishing "The Bankers Trust Tapes," a based on sealed court documents concerning a $195 m lawsuit by Procter & Gamble Co. against Bankers Trus over financial derivatives (page 40).

In a powerful rebuke of U. S. District Court Judge Feikens, the Sixth Circuit Court of Appeals in Cincinnat that "even a temporary restraint on pure speech is im er 'absent the most compelling circumstances'" and "suc cumstances are not present in the case at bar...." Th peals court said that Feikens was wrong in conduct hearing on how BUSINESS WEEK gathered its inform and wrong in elevating court secrecy above the rig free speech.

The opinion was a direct attack on the growing eff stamp "secret" on virtually any and all information di ered in public trials. BUSINESS WEEK was never a par the decision by P&G and Bankers Trust to seal pretri formation, but Feikens said it was prohibited from asking for the material under seal. If upheld, this de would have been a wildly dangerous precedent. In Br the press was banned from commenting on the Th mide court case for years as thousands of women cont to take the drug. A Judicial Conference of the United S is now considering a proposal to make the sealing o covery documents almost automatic in civil cases. should heed the appeals court decision.

The appeals court ordered Feikens to pay more atte to supervising and limiting the sealing of documents. private litigants' interest in protecting their vanity or commercial self-interest simply does not qualify as groun imposing a priori restraint." For anyone worried about ernment censorship of the Internet or any other medium is a big win.

The SAS® System Helps Monitor the Pulse of Patient Satisfaction

As more and more health care roviders offer similar services at comarable prices, patient satisfaction is st becoming the new basis of compeion. To help monitor how patients erceive the quality of the care they eceive, Intermountain Health Care HC) is turning to the SAS System software.

"The SAS System has enabled us develop a unique reporting system hat includes all the information equired by our front-line managers nd administrators—in a format that orks for them," says Glen McBride, HC's manager of strategic research.

Fast, Effective Remedy for Every Reporting Need

"We needed a reporting system hat could get relevant, easy-to-nderstand patient feedback into the ight hands in an efficient, timely hanner," says Sarah Luker, research ssociate at IHC (pictured above). The SAS System was the only software ystem that came close to meeting ur complex reporting needs."

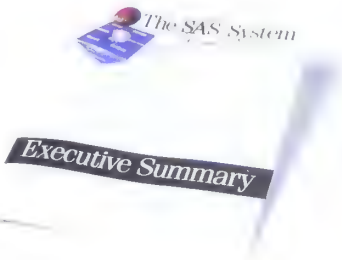
Since IHC serves almost a million patients every year, that's a lot of feedback. "With the SAS System, we generate hundreds of unique reports each month," adds McBride. "At a glance, managers can see how patients perceive the quality of various aspects of the hospital experience, such as admitting procedures, nursing care, and physician care."

A Healthy Dose of Relevant Consumer Data

"This valuable month-to-month feedback enables us to make *appropriate* changes to the care we provide," McBride explains. "And that helps us to offer the best possible care to patients who visit our 23 hospitals in Utah, Wyoming, and Idaho."

Having implemented such a successful reporting system for IHC hospitals, what's next? Luker says, "Because of its flexibility, we'll soon be using the SAS System to provide valuable customer feedback to employees across all *three* IHC divisions—the hospital, health insurance, and physician groups."

To receive a SAS System Executive Summary, give us a call or send us E-mail at bw@sas.sas.com



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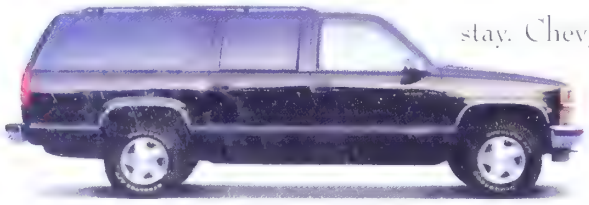

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America's Most Valuable Companies

How They Rank In Market Value

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THE UNFORGIVING MARKET AHEAD

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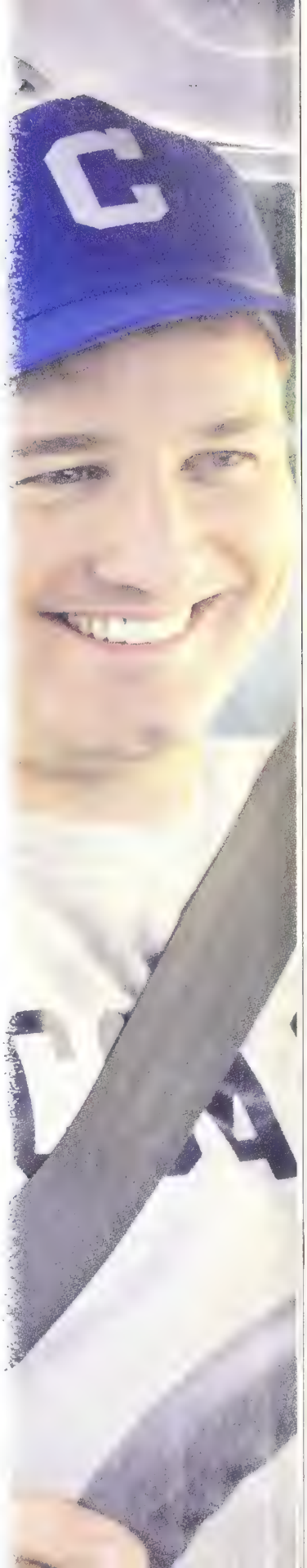

BusinessWeek
MARCH 25, 1996

THE BUSINESS WEEK 1000

With inflation low, interest rates in check, and productivity high, market values went right through the roof page 88

Cover Story

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It was one for the books. In 1995, America's most valuable companies grew even more valuable—by an astonishing 35%. Wall Street suspended disbelief as company after company churned out strong earnings. Alas, a repeat performance this year looks less likely by the day

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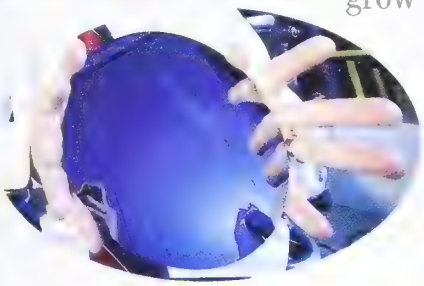

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "This is the last hurrah of that older generation—the last hurrah. Our time is coming, my friends."

—GOP Presidential hopeful Pat Buchanan, after losing seven states on Super Tuesday to Bob Dole

THE FEDS

TOLL-FREE COULD BECOME REAL PRICEY

WASHINGTON, WHICH IS making a bundle selling airwave rights, now wants to auction off new toll-free phone numbers. That makes retailers and other toll-free users, such as 1-800-FLOWERS, apoplectic. A key part of their argument is that unlike the airwaves (proceeds to the Treasury: $10 billion plus), phone numbers don't belong to the feds. "This is not going to happen without a big fight," says Loren Stocker, managing partner of phone consultant Vanity International.

Since the supply of "800" numbers recently ran out, the Federal Communications Commission set up a new toll-free "888" exchange. But many users of well-known "800" numbers worried that a competitor—or speculator—might reserve the equivalent "888" number (example: 1-888-FLOWERS) with the FCC and then either use it or sell it back at an obscene price. So 375,000 such "vanity" numbers, out of 8 million, wer set aside for companies wit the equivalent "800" number The FCC began issuing th remaining "888" numbers c Mar. 1.

Trouble is, now the fed know those numbers hav value, at least to the exis ing "800" users. Result: Cli tonites and Senator John M Cain (R-Ariz.) want to se the set-aside "888" numbe to the highest bidder. Tha idea is before Congress, a part of current budget deli erations. The estimated valu ranges from $350 million t $700 million. *Mark Lewy*

SLUGFESTS

LLOYD'S OF LONDON VS. THE COLONISTS

U.S. INVESTORS IN TROUBLED Lloyd's of London may thwart the insurer's $4 billion restructuring—and perhaps threaten its very survival. They're going to court to block its attempt to make them pay up millions in debt. The investors, also known as "names," underwrite Lloyd's policies in return for premium income, while pledging their entire net worth against insurance claims.

LLOYD'S: *A "name" game*

In the largest legal action to date, California securities regulators are suing to thwart Lloyd's from drawing down $100 million in letters of credit from some 500 California names and pursuing an additional $400 million in debts Lloyd's says they owe. The suit alleges that the contracts Lloyd's signed with its names were actually securities—and were neither properly registered nor adequately explained. Lloyd's disputes that, asserting that the feds once passed on a chance to register the contracts as securities. If the suit is successful, names could tear up their contracts and cancel all their Lloyd's debts.

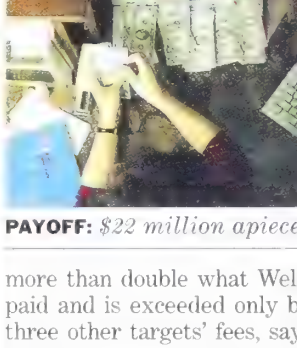
Hobbled by huge claims stemming from the Exxon Valdez oil spill and other disasters, Lloyd's is facing a deadline: By August, Lloyd's must prove to the British Trade & Industry Dept. that it has sufficient capital to stay in business. That's after providing for an estimated $22.7 billion in claims relating to policies written through 1992. Its restructuring hinges on the names' O.K. *Ronald Grover*

THE DEAL MILL

THE FEE TREE ALWAYS BEARS FRUIT

SOMETIMES YOU CAN WIN BY losing. That's the case for Goldman Sachs and Morgan Stanley, initially hired by First Interstate to fend off Wells Fargo's hostile bid. Irony: Wells won anyway in January, and First Interstate must pay one of the largest deal fees for a target company in history.

The Los Angeles bank owes its two investment advisers $44 million, according to recent SEC filings. That's



PAYOFF: *$22 million apiece*

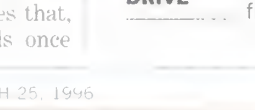
more than double what Wel paid and is exceeded only b three other targets' fees, say Securities Data. The larges Federated Departmen Stores' $54 million in 198 when it failed to avoid Rob ert Campeau.

Why the big payday fo Goldman and Morgan? Be cause their fees ($22 millio for each) are pegged, in par to the deal's size. This $1 billion stock-swap deal is th seventh-largest ever. Wells stock rose during the proces (often, acquirers' share drop), and it got in a biddin war with First Bank Systen

First Interstate investor are getting $160 per share $21 more than Wells' first o fer and $54 over the pre-bid ding price. First Interstat and Goldman declined to com ment. Morgan says its mar date was to maximize share holder value and review a alternatives. *Nanette Byrne*

THE LIST **BLUE STREAK**

For the third straight year, IBM has won the sweepstakes for U. S. patents. In 1990, Hitachi was No. 1, Big Blue No. 9. IBM has been pushing to move R&D out quicker—everything from a new hard drive to a mobile networking system that gives cellular phones digital capabilities. Closing in fast on IBM: Motorola and NEC, which in 1994 weren't even in the top five.



IBM'S DRIVE

COMPANIES WITH THE MOST U.S. PATENTS, 1995

COMPANY (1990 RANK)	NO. OF PATENTS
1 IBM (9)	1,383
2 CANON (4)	1,088
3 MOTOROLA (NR)	1,012
4 NEC (NR)	1,005
5 MITSUBISHI (3)	971
6 TOSHIBA (2)	970
7 HITACHI (1)	909
8 MATSUSHITA (NR)	852
9 EASTMAN KODAK (7)	772
10 GENERAL ELECTRIC (5)	757

NR = Not ranked

DATA: IFI/PLENUM DATA CORP., IBM

intel inside
PENTIUM PRO

Pentium Pro Chip 1995
Pentium Chip 1993
486 Chip 1989
Compact Disc 1983
Bullet Train 1981
Earth Shoe 1974
1963 Studebaker
1955
1941 Color TV
1893 Electric Toaster
1867 Typewriter

The wait for new technology is getting shorter.

In some places, there's no wait at all.

Bravo MS-T, 150 MHz Intel Pentium Pro processor

onto. Right now. Yesterday even. AST and the latest Intel Pentium Pro chip are ready to accelerate rough your workload in a new AST desktop. The Bravo MS-T is one feature-packed machine designed to n all your most powerful 32-bit software. (Even the stuff some techno-wizard will think up next year.) indows NT™? It could be on your desk by, let's say, Tuesday. Instead of waiting for a faster computer, you'd e using one. Call 800-876-4AST. Or on the net: http://www.ast.com. Today, running a little fast is a good thing.

AST COMPUTER

Where things are HAPPENING

0 MHz Pentium Pro processor, 16 MB RAM standard, 256 KB second-level cache, 1.6 GB hard drive, 4X EIDE CD-ROM, integrated ATI mach64 graphics, four PCI and three ISA slots, 5 drive bays.

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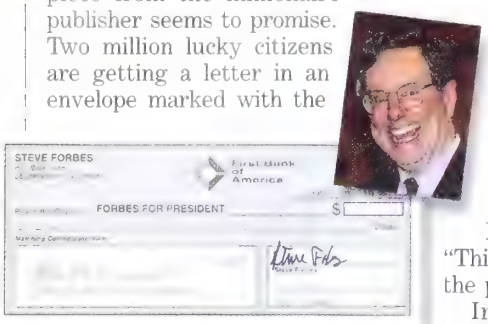
Up Front

FAT WALLETS

FORBES'S CHECK ISN'T IN THE MAIL

MONEY FROM STEVE FORBES? That's what a new direct-mail piece from the millionaire publisher seems to promise. Two million lucky citizens are getting a letter in an envelope marked with the words: "Forbes for President" and "check enclosed." But it turns out the GOP Presidential contender is asking for a donation, not making one.



TEASER? *Why this man is laughing*

Inside, there's a check-like document endorsed by Forbes and made out to his campaign. This is his pledge to match a donor's gift "dollar for dollar—with my own money. Equal partners." Recipients are supposed to fill in the amount of their contribution and attach their own check.

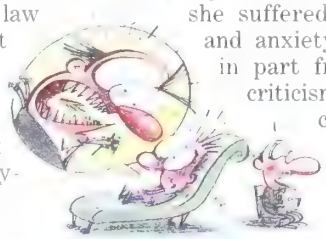
Is the "check enclosed" envelope misleading? Direct mail's challenge, of course, is to get you to open the envelope and not throw it away. Forbes will only say: "This check symbolizes the partnership."

Ironically, Forbes is turning down federal matching campaign funds, the only candidate to do so. He has spent $25 million thus far, nearly all of which he lent the campaign. Forbes, in his pitch letter, doesn't say whether these loans count as matches or whether he's talking about new loans. Donations now amount to about $2 million, mostly from Wall Streeters, wealthy friends and relatives, and fans of his flat tax. *Paul Magnusson*

SLUGFESTS

HOW MY BOSS DISABLED ME

DOES YOUR BOSS SAY: "I DON'T have ulcers, I give them"? He may be flirting with the Americans with Disabilities Act. More and more workers are citing the law to demand that companies move them to a new position or work site, employment lawyers say.

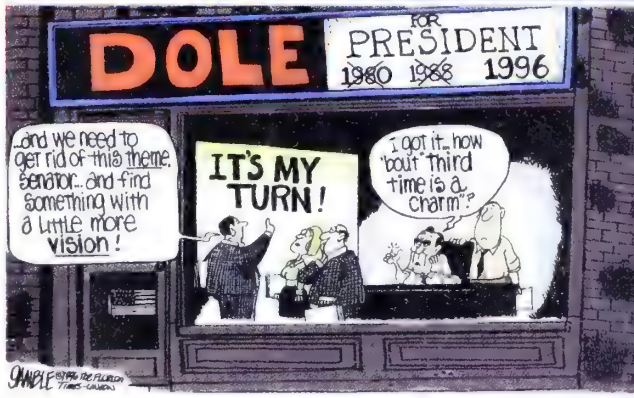


A mean boss causes them so much anxiety and stress, the workers claim, that they're disabled. Dallas lawyer Stanley Weiner says four of his corporate clients have received such complaints in the past six months. For now, very few have gotten as far as court or the federal Equal Employment Opportunity Commission.

Most employers are putting up a fight. Consider Household Finance Corp. and its legal face-off with Sherrylen Weiler, an HFC accounting manager. She contends she suffered severe stress and anxiety that resulted in part from her boss's criticism and negative comments.

HFC suggested she apply for other jobs within the company, but she sued, arguing that Household Finance was obliged to arrange a transfer. A federal judge in Chicago recently ruled in favor of the company. Weiler, who is now employed elsewhere, is appealing the decision. *Wendy Zellner*

DRAWN & QUARTERED



ILLEGAL ENTRY? *Refuge in unions*

GREEN CARD

YOU CAN'T FIRE ME—UM, OR HIRE ME

THE FEDS SAY, IN RECENT rulings, that companies can't hire or—sometimes—fire illegal immigrants, leaving employers baffled.

President Bill Clinton just took a hard line by barring companies that knowingly employ illegals from federal contracts for a year. Meanwhile, the Clinton-controlled National Labor Relations Board has prohibited companies from firing them for union activities, prompting a protes from the Immigratio & Naturalization Se vice. Says Stephe Bokat, general cou sel of the U.S. Char ber of Commerc "The conflict between laws ca make your head swim."

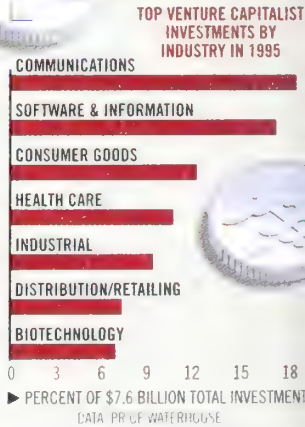
By a 3-to-1 vote, the NLR ordered several years' bac pay and reinstatement fo two undocumented emplo ees who were fired after sig ing union cards. They ca keep working if they com up with the proper paper says the NLRB. APRA Fuel C Buyers Group, says it canne them because of an accide involving their delivery truc

The result may make easier for unions to sign u illegals as members. Usuall these workers have been r luctant to call attention t themselves. *Catherine Ya*

THE BIG PICTURE

MONEY TALKS

Communications is the new darling of venture capitalists. The $1.3 billion it received in 1995 helped telecom beat out 1994's favorite investment—software and information (24.4% of the market in '94). Relaxed telecom regulations are prompting even heavier investment this year.



FOOTNOTES Portion of all business-school graduates who were women in 1970: 4%; in 1980: 25%; in 1995: 34%

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The new Chrysler Town & Country LXi is proof that it ly is possible to make a luxury of necessity. The kind of vehicle u need has become the kind of vehicle you want.

Chrysler Town & Country Xi's interior pampers you and your ssengers with fine leather-trimmed ating throughout. Dual zone tem-rature controls enable the driver and front passenger to establish rsonalized climate zones. Other seat positions have airflow tlets and, in the rear, there's a heater/air conditioning unit.

Introducing The All-New Chrysler Town & Country

The interior design is finely finished with close attention to ur serenity: We've put so much effort into noise reduction that u'll hear little more than your companions' conversation or the nes of the standard AM/FM/CD/cassette and ten-speaker Infinity coustic 10™ sound system. Dual front air bags,† ABS and a host other safety measures will also help preserve your peace of mind.

Outside, Town & Country LXi is sculpted to please the eye and slip the wind. It has a slinky .36 coefficient of drag. You'll also appreciate the convenience of a driver's side sliding door—the only such door on a minivan today.

Of course, as a minivan, Chrysler Town & Country LXi boasts convenience and practicality beyond the aspirations of luxury cars. Like storage space—pockets, drawers, bins, cup holders and cargo space—that sedans could only dream of. More passenger space than any luxury car short of a limousine. More cargo volume than any other minivan. Quad Command passenger bucket seats. And new removable Easy Out Roller Seats™ on wheels, with seatbacks that fold to form a flat surface.

Is Chrysler Town & Country LXi all things for all people? No, but with all the luxury and capability it offers, it could be all things for you. If you'll permit us to expand upon it a bit more, please call 1-800-4-A-CHRYSLER for more information.

CHRYSLER TOWN & COUNTRY

The Ultimate

†Always wear your seat belt. Infinity Acoustic 10™ is a trademark of Infinity Sound Systems.

Back in 1949, computers took up the space of entire warehouses. So as unrealistic as this quote might sound now, it was actually pretty optimistic thinking at the time.

What no one predicted was that in 1971, Intel would turn the world of computer technology on its head by inventing the microprocessor. So instead of weighing 1.5 tons, some computers now weigh less than five pounds. And these computers have amazing capabilities that the gargantuan computers of the '50s and '60s didn't have. Things like running video and sound, and communicating with PCs all over the world.

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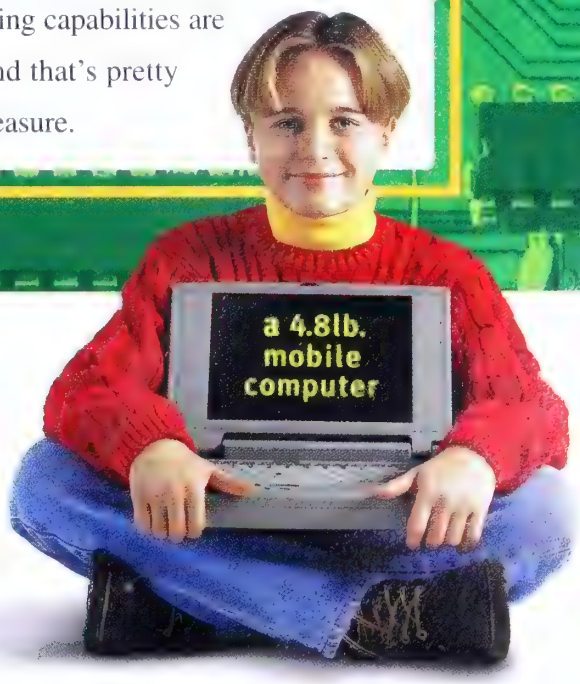
"Computers in the future may weigh no more than 1.5 tons."

POPULAR MECHANICS, 1949

—FORECASTING THE WONDERS OF MODERN TECHNOLOGY.

So the invention of the microprocessor meant much more than just lighter-weight computers. It's what made it possible for the personal computer to be "personal." So that people could have their own computers. Which means all those amazing capabilities are at your fingertips. And that's pretty impressive by any measure.

http://www.intel.com



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Readers Report

THE PERILS OF CHINA POLICY

Your Cover Story "Rethinking China" (Mar. 4) claims China is an unruly giant. Yet you fail to point out that it's the lawmakers in Washington and the Clinton Administration's lack of a consistent China policy that is at the core of the troubles between Washington and Beijing. A sound China policy was brilliantly outlined by former President Richard Nixon, who once pointed out that Beijing's trade policies, world outlook concerning its national security, and military buildup were a clear signal to the Clinton Administration that Beijing wants to be recognized as a power of the world in its own right, and rightfully so. China is no longer on a colonial footing, as in the past, toward the Western powers. Many Chinese people, including myself, an American-educated businessman, believe that Washington intends to limit China to a role of a developing nation whose development must be checked by Washington and its world order.

Andrew Wang
CEO
W. B. A. Inc.
Los Angeles

In your editorial "No cold war with China, please" (Mar. 4), you advocate a Shanghai communiqué II to "recommit the U. S. to a one-China policy and recognize the legitimacy of China's goal of national reunification with Taiwan." What right does BUSINESS WEEK have to use Taiwan and its 21 million people as pawns or bargaining chips for the purpose of appeasing and kowtowing to the world's most dictatorial and oppressive regime domestically and the worst rule-violating, stubborn, and uncooperative government internationally?

As a Taiwanese American, I want to see the U. S. sternly uphold its national interests in the Pacific region, and maintain and promote the security, peace, and prosperity of the entire region. Only time and the will of the Taiwanese people, free from any outside influence or coercion, will settle the Taiwan issu

Paul B. Din
Presider
Bridgeport In
St. Lou

CORRECTIONS & CLARIFICATIONS

In "The trials of a home HIV test" (Science & Technology, Mar. 18), the test shown in the photographs was made by ChemTrak Inc., not Johnson & Johnson.

SINCE NASDAQ IS NOT BROKEN...

Maybe I'm missing something, c maybe it's just that I live outside th Beltway, but I don't understand SE Chairman Arthur Levitt Jr.'s "crusade to make over NASDAQ—to, as you pu it, give "the little guy a fair shake ("NASDAQ: Power to the people?," F nance, Mar. 4). Take it from this littl guy: NASDAQ has given me more, muc more than a fair shake. Without excep tion, my best investments have bee NASDAQ stocks. And judging by the per formance and volume of the NASDA market, there must be millions of othe "little guys" like me. You predict Levit will prevail in his quest. Maybe so, bu that would be a shame. Regulators hav a way of fouling up markets.

Anthony Dale
Encino, Cali

DETROIT DEMANDS A RECOUNT ON AUTO EXPORTS

The article on U. S. automotive ex ports, "America's No. 1 car exporte is...Japan?" (Industries, Feb. 26), is a odds with the facts about the nation No. 1 (General Motors), No. 2 (Ford Mo tor), and No. 4 (Chrysler) exporters. I fact, a rival magazine's most recen ranking of the top U. S. exporters put America's car companies at the top c the list, with a total of $37.4 billion i export sales of vehicles and parts.

Even your correspondents ac

Business Week

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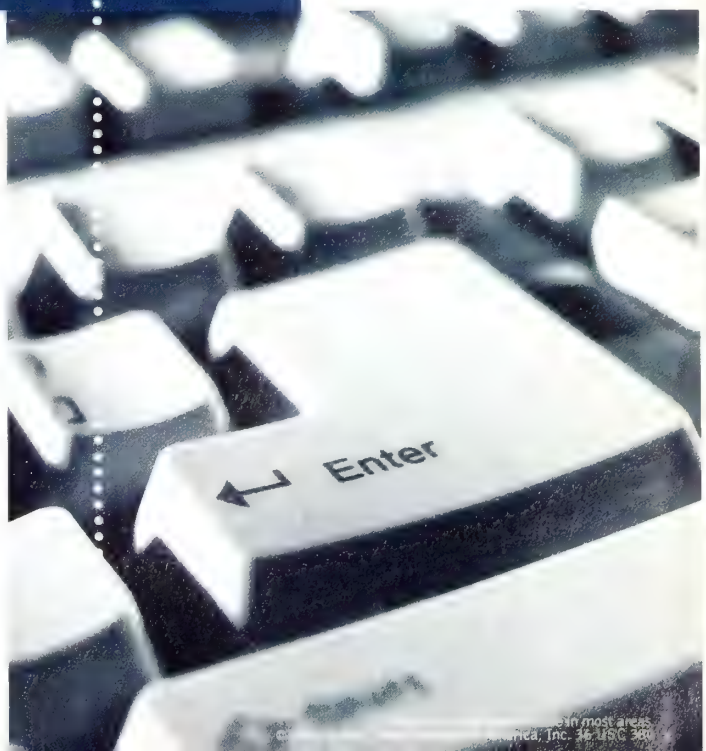

knowledged that Detroit jumps way ahead of the Japanese transplants in terms of total vehicle exports (316,000 units vs. 167,000 units) when the light-truck segment—which includes minivans and sport-utility vehicles—is included. Counting only automobile exports is misleading, especially when the light-truck segment is among the fastest-growing in many overseas markets, such as Japan and Korea, just as it is here.

GM, Ford, and Chrysler are working hard to recruit dealers and increase their presence in Japan. However, most of that nation's carmakers own their own distribution points in the most favorable locations, giving the transplants a leg up on us in getting their cars and trucks to Japanese consumers.

Andrew H. Card Jr.
President & CEO
American Automobile Manufacturers Assn.
Washington

HOW TO STOP THE UNDERCLASS FROM SWELLING

In "Is America becoming more of a class society?" (Social Issues, Feb. 26), it does not surprise me at all that we are developing a growing underclass in this country, given that:

- Our schools are more concerned with socialization, feelings, and sports rather than preparing our young people to become productive, informed citizens.
- Our government, through its social policies, encourages people to become wards of the state rather than self-reliant individuals.
- Standards of acceptable behavior and quality continue to decline at an alarming rate.
- Our society has still not learned that we must face the reality of intense competition from overseas.

We must elevate our citizens, not with useless programs, but by effective schooling, emphasis on personal responsibility and obligations to others, and dedicating ourselves to higher standards of achievement and behavior.

William J. Meisler
Harrisburg, Pa.

Your article fails to address the quality of education as a factor in this growing division. The philosophy of public education—geared to keeping students in school and happy through their teen years, regardless of whether they are learning even the most basic English and math skills—must bear some of the responsibility for the growing underclass of high school grads and dropouts who do not have the skills for well-paid employment.

Unless we introduce a more rigorous approach to public education that enhances the skills of these two groups and enables more of them to move on to our colleges and universities, the gulf between the classes in this country is likely only to widen, regardless of well-meaning attempts at income redistribution. The solution must lie in elevating the undereducated to more meaningful academic achievement, not in makeshift measures that relegate them to permanent underclass status. Closing the education gap will go a long way toward closing the income gap.

Elizabeth B. Ehrlich
New York

WAS THE REPORT ON APPLE ROTTEN TO THE CORE?

In response to "The fall of an American icon" (Cover Story, Feb. 5) on Apple Computer Inc., I sent a letter to BUSINESS WEEK published on Feb. 26 in which I pointed to mistakes Apple made that contributed to its seemingly paradoxical image as a technological visionary hobbled by market myopia. But the thrust of my message—that media bias, including nonobjective reporting by BUSINESS WEEK, contributed to Apple's woes—was deleted during the editing process.

Your coverage of the Windows 95 rollout last summer had a decidedly pro-Windows 95 tone. It first seemed that BUSINESS WEEK had succumbed to the pre-release media frenzy Microsoft Corp. had so expertly orchestrated. However, the Apple cover story suggests that BUSINESS WEEK was guilty of a more serious offense: finessing facts to assure magazine sales to its largely Windows-using core market. I found it ironic that BUSINESS WEEK chose to quote me out of context, especially when the context was one complaining about the magazine's apparently biased reporting.

Martin H. Tesler
Alexandria, Va

GIVE THE FLAT TAX A FAIR SHAKE

Christopher Farrell joins the defenders of the indefensible status quo with his deceptive and misleading hit piece on the flat tax, "A flat tax is flat-out risky" (Commentary, Feb. 19). Farrell is guilty of the same smear tactics used by other desperate critics of the flat tax, including reliance on thoroughly discredited studies with abysmal methodology, the use of loaded words and slante jargon, and quotations from biase sources without identifying their biase

Michael D. Whitt
Chicag

Your assertion that a flat tax woul cause the stock market to "tumble" be cause corporate assets would be wort less defies comprehension. Elimination taxes on dividends, interest, and capit gains would have just the opposite e fect. The value of corporate earning dividends, and interest payments woul soar. Equity and bond values would ris accordingly. Yes, there are risks simpl in making changes. But the risks t stock values, home values, and the eco omy of continuing the present syste are high as well. Now is a good time t risk some change. Our economy stronger and healthier than it has bee in a long time. There are no great di tractions abroad. The flat-tax idea catching on because there is a growin sense that we should do this now.

Alexander M. Blanto
New Yor

IF YOU HAD $4 BILLION TO BLOW...

A Feb. 26 article, "What Ford ha riding on these four wheels" (New Analysis & Commentary), says For Motor invested $4 billion in the F-15 truck. A Jan. 29 article, "Did the FAA g easy on Boeing?" (The Corporation says Boeing Co. invested $4 billion i the 777. Whose costs seem out of line

Greg Brownin
Louisville, K

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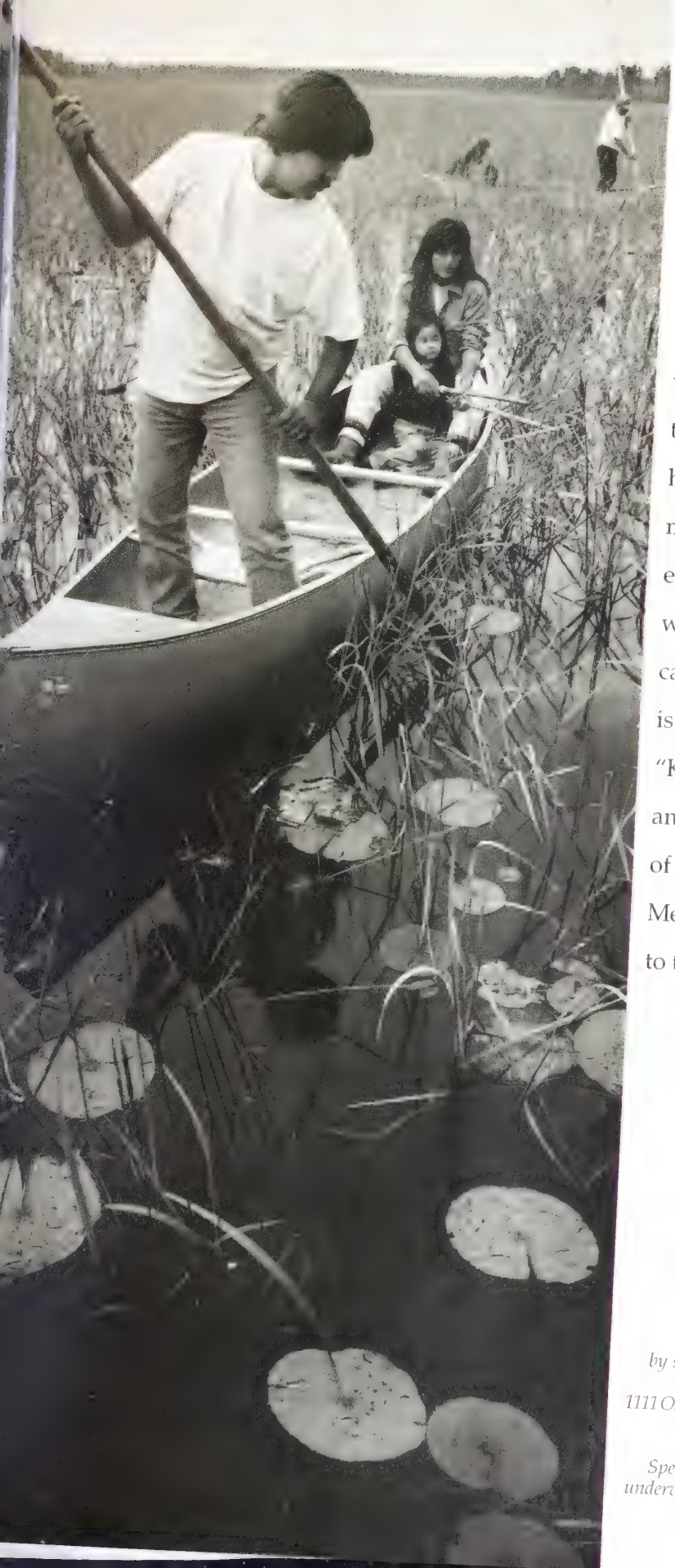

According to legend, a little child had a dream about the best way to harvest and prepare wild rice. That it should be knocked from the stalks with blessed sticks, then parched in the sun and danced on to remove the husks. The people did this and they made it through the winter with enough to eat. "Manomin" was the word the child dreamed, and that became the word for rice. "Menominee" is the name of the tribe, and it means "Keepers of the Rice." These words and traditions came from the dream of a child. Which is just one reason the Menominee have always made it a point to talk to their children. And to listen.

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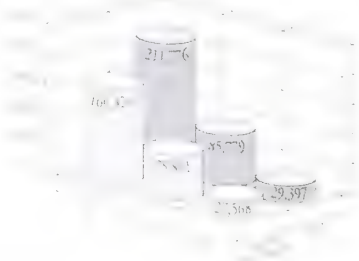

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THE BUSINESS WEEK BEST-SELLER LIST

HARDCOVER BUSINESS BOOKS

THE ROAD AHEAD by Bill Gates, with Nathan Myhrvold and Peter Rinearson (Viking • $29.95) *Observations on the I-way and a peek at the $30 million house that Bill built.*

THE BEARDSTOWN LADIES' STITCH-IN-TIME GUIDE TO GROWING YOUR NEST EGG by the Beardstown Ladies Investment Club with Robin Dellabough (Hyperion • $19.95) *The team from Illinois turns to retirement planning.*

THE MOTLEY FOOL INVESTMENT GUIDE by David and Tom Gardner (Simon & Schuster • $24) *An online investment duo puts it in writing.*

THE DISCIPLINE OF MARKET LEADERS by Michael Treacy and Fred Wiersema (Addison-Wesley • $25) *Consultants diagnose what successful companies do.*

HOW TO DRIVE YOUR COMPETITION CRAZY by Guy Kawasaki (Hyperion • $22.95) *Pulling off the gloves—and giving the other guy fits.*

BUILT TO LAST by James C. Collins and Jerry I. Porras (HarperBusiness • $25) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*

INSIDE THE TORNADO by Geoffrey A. Moore (HarperBusiness • $25) *Lessons on marketing from Silicon Valley.*

THE DIGITAL ECONOMY by Don Tapscott (McGraw-Hill • $24.95) *How the Infobahn is changing business.*

REAL CHANGE LEADERS by Jon R. Katzenbach and the RCL Team (Times Business • $27.50) *McKinsey & Co. consultants look at innovative middle managers.*

MEGATRENDS ASIA by John Naisbitt (Simon & Schuster • $24) *Look eastward, executives.*

EMPOWERMENT TAKES MORE THAN A MINUTE by Ken Blanchard, John P. Carlos, and Alan Rudolph (Berrett-Koehler • $20) *A motivational how-to in story form.*

RAVING FANS by Kenneth Blanchard PhD and Sheldon Bowles (Morrow • $20) *Turning customers into your biggest boosters.*

PROFIT FROM EXPERIENCE by Gil Amelio and William L. Simon (Van Nostrand Reinhold • $24.95) *Apple's new chief describes the National Semiconductor turnaround.*

THE LEADER OF THE FUTURE by Frances Hesselbein, Marshall Goldsmith, and Richard Beckhard, eds. (Jossey-Bass • $25) *Writers and consultants tell how to have the right stuff.*

THE WHIZ KID OF WALL STREET'S INVESTMENT GUIDE by Matt Seto with Steven Levingston (Morrow • $22) *It's a lot like swapping baseball cards, says the prodigy.*

PAPERBACK BUSINESS BOOKS

1 **THE BEARDSTOWN LADIES' COMMON-SENSE INVESTMENT GUIDE** by the Beardstown Ladies Investment Club with Leslie Whitaker (Hyperion • $10.95) *Recipes for Four-Bean Salad, Five-Hour Stew—and 23% returns.*

2 **THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • $12) *Habitually popular.*

3 **LEARN TO EARN** by Peter Lynch and John Rothchild (Fireside • $13) *Capitalism for beginners.*

4 **THE ONLY INVESTMENT GUIDE YOU'LL EVER NEED** by Andrew Tobias (Harcourt, Brace • $12) *How to overcome "money intimidation," now in an updated edition.*

5 **FIRST THINGS FIRST** by Stephen R. Covey, A. Roger Merrill, and Rebecca R. Merrill (Fireside • $14) *Managing your time by balancing your life.*

6 **THE WALL STREET JOURNAL GUIDE TO UNDERSTANDING MONEY AND INVESTING** by Kenneth M. Morris and Alan M. Siegel (Fireside • $13.95) *Concise explanations enriched with graphics.*

7 **THE ERNST & YOUNG TAX GUIDE 1996** by the Tax Partners and Professionals of Ernst & Young LLP (Wiley • $14.95) *April is the cruelest month.*

8 **THE 1996 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • $14.95) *The enduring job-search bible.*

9 **1001 WAYS TO REWARD EMPLOYEES** by Bob Nelson (Workman • $8.95) *Give them a champagne brunch, a casual-dress day—or plain old cash.*

10 **THE WARREN BUFFETT WAY** by Robert G. Hagstrom Jr. (Wiley • $14.95) *A useful analysis of how Buffett does it.*

11 **J.K. LASSER'S YOUR INCOME TAX 1996** by the J.K. Lasser Institute (Macmillan • $14.95) *1099s and W-2s anyone?*

12 **GETTING TO YES** by Roger Fisher, William Ury, and Bruce Patton (Penguin • $11.95) *A Harvard team's step-by-step guide to conflict resolution.*

13 **YOUR MONEY OR YOUR LIFE** by Joe Dominguez and Vicki Robin (Penguin • $11.95) *To achieve financial independence, restructure your life.*

14 **THE ONE MINUTE MANAGER** by Kenneth Blanchard PhD and Spencer Johnson M.D. (Berkley • $9.95) *Three management techniques, conveyed in brief story form.*

15 **PERSONAL FINANCE FOR DUMMIES** by Eric Tyson (IDG Books • $16.95) *Lighthearted primer.*

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HOT TYPE

MAYBE THEY SAID IT ALL THE FIRST time. Without the blend of small-town dom and financial savvy that made *The Beardstown Ladies' mmon-Sense Investment Guide* so compelling, the team's sec-l book, *The Beardstown Ladies' Stitch-In-Time Guide to wing Your Nest Egg* (Hyperion), No. 2 on this month's t-seller list, seems a bit threadbare.

Here are useful worksheets, a sample will, and a handy of resources, but the homespun anecdotes and hands-on at-de are gone, as, for the most part, are the recipes. Here are s for seniors, but most—such as where to get discounts on beverages—are of limited value. Nor is the advice for retirees original: "Keep increasing the amount of your assets or investments while reducing the amount of your liabilities or debts," we're told. The authors also recommend buying generic brands, checking out books and videos from the library, and bringing lunch to work.

The book deals in generalities—its most tangible advice is how to attire a ceramic goose for your yard. And it's too slick: The heavy hand of book packager Seth Godin Productions and the ladies' new co-writer, Robin Dellabough, is all too visible.

With their returns averaging 23% over 11 years, the Illinois squad's financial success has been an inspiration. But consumers may want to heed the ladies' advice and pick up the *Stitch-In-Time Guide* at the local library.

By Kerry Capell

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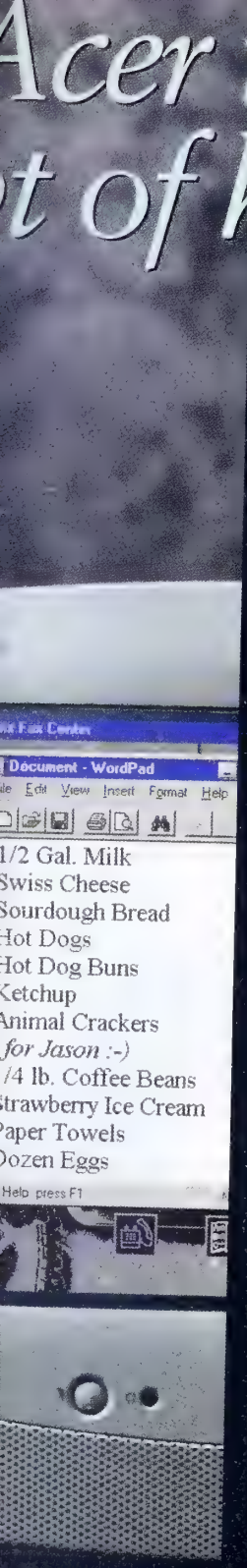

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THE WEIGHT OF THE YEN
How Denial Imperils America's Future and Ruins an Alliance
By R. Taggart Murphy
Norton • 352pp • $25

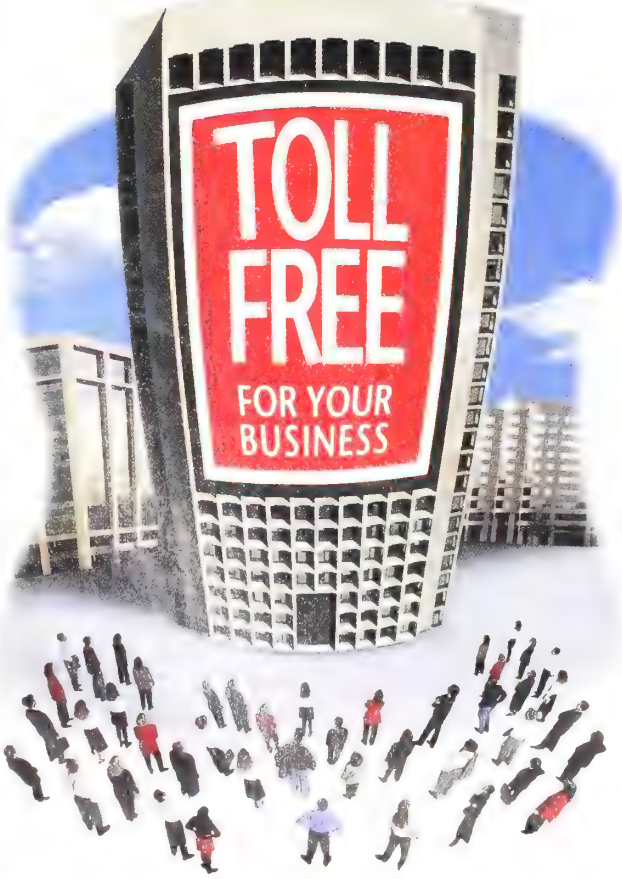
DROWNING IN YEN

Of all America's postwar alliances, none is more important or contentious than its link with Japan. Provided with Washington's pledge of security and open markets, Japan has responded with a flood of televisions, Toyotas, and money. But while the volumes discussing the nearly 50-year-old U.S.-Japanese trade relationship could fill a fair-size library, works that analyze the equally vital financial ties between the two countries have been few. So it was with keen anticipation that I turned to R. Taggart Murphy's *The Weight of the Yen* for an explanation of how the U.S. became dependent on Japanese cash, and whether it should be a matter for continuing concern.

Murphy emphatically believes that it should be, and I was more than satisfied with his lively arguments. A veteran Tokyo-based investment banker who first got hooked on Japan when his family moved there while he was in his teens, Murphy writes with an authority that can come only from having watched the growth of a phenomenon from within. And although this is his first book, it's hardly Murphy's initial treatment of the topic of Japanese money. His provocative 1989 *Harvard Business Review* article, "Power Without Purpose: The Crisis of Japan's Global Financial Dominance," appeared at the peak of the country's "bubble economy" and is one of my favorite analyses of how Japan refuses to subordinate self-interest to the grea good of the world financial system.

In his book, Murphy expands on theme of blind self-interest, produc an engaging and witty analysis of forces that have permitted Japan pile up cash and the policy blund that have kept U.S. Presidents fr Nixon to Clinton in denial, as he p it, about the challenge these for pose. Murphy concludes that the Jap ese amass and deploy their cash achieve one strategic goal at the pense of everything else: dominat of world markets.

Murphy recalls, for example, that Reagan Administration mistakenly lieved that the Bank of Japan's decis to open the monetary floodgates af the dollar was devalued in 1985 wo rev up the Japanese demand for ports. Instead, Murphy says, si Japan's banks serve more as agents national industrial policy than as in pendent financial institutions, much the newly created liquidity was f neled into Japanese manufacturers' fers. Bankrolled with dirt-cheap cre corporations then launched a gargan an spending campaign that added Japan's gross national product the equ



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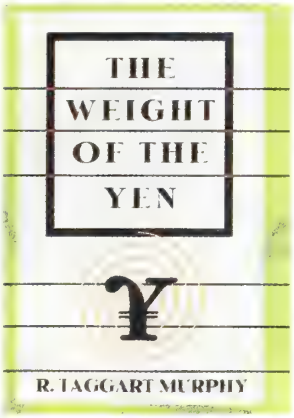
ent of the entire GNP of France—and t the deficit-fueled U. S. with record ade imbalances.

Murphy suggests the U. S. could ve avoided this comeuppance had its aders paid more attention to Japan's or record at following through on in- rnational economic pledges, as well its own lack of desire reduce a spreading dget deficit financed gely by borrowing road. Writes Murphy: mericans have paid a gh price for choosing to rrow money rather an face up to the need far-reaching debate on e hard decisions that e the genuine stuff of nest politics." With ngress and the White use grappling over a al to balance the bud- t, that realization may finally be fil- ring down to policymakers.

In crafting his analysis, Murphy edits the likes of Karel van Wolferen, halmers Johnson, Clyde Prestowitz, d former BUSINESS WEEK Tokyo bu- au chief Robert Neff, all prominent members of the "revisionist" school of authors, academics, and journalists who contend that Japan's economy marches to its own beat. In their Japan, and Murphy's as well, most of the nation's political leaders are little more than figureheads who are unable to deliver on most of the trade concessions that Washington demands, and consumers are subjugated to an unholy trinity of bureaucrats, banks, and manufacturers.



Although this line of argument is familiar by now, Murphy builds on it admirably. His discussion of the forces driving the Japanese banking system to lend with little heed to credit risk is particularly provocative now that the country's lenders are wallowing in hundreds of billions of dollars in bad debts.

To Murphy, blind obedience to the imperative of economic dominance carries dangerous seeds of instability for Tokyo and Washington alike. How, asks Murphy, can Japan demand unlimited access to foreign technology and world markets while running a cartelized mercantilist economy at home?

Murphy thinks Washington should pressure Tokyo to change its ways—but with a shift in tactics. The U. S. must learn to stop browbeating Japan and establish a powerful, dedicated force of specialists focused on the complex Japanese political economy. Approaching Tokyo much as it approached Moscow in cold war days, Washington "must learn to negotiate quietly, skillfully, and firmly," Murphy says, "reacting to intransigence not with hectoring and cheap talk, but with measures based on painstaking, detailed study designed to achieve the maximum results with minimum resentment."

Will this bring greater balance to the U. S.-Japan relationship? Murphy could have spelled out his recommendations in greater detail, but his analysis of what's amiss with the U. S.-Japan financial relationship is nonetheless arresting. America has gotten used to living off Japanese cash. Murphy shows that the cost of this money is high indeed.

BY WILLIAM GLASGALL

Senior Writer Glasgall covers international finance for BUSINESS WEEK.

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BY STEPHEN H. WILDSTROM

THE LITTLE DYNAMO

Pilot's big plus: It can easily swap schedules and addresses with your desktop

My long search has finally borne fruit. For a couple of years, I've been looking for an electronic calendar and address book that's small enough to fit into a pocket but that can swap information with my desktop computer.

My new companion, which is called Pilot, weighs just under 6 ounces. Unlike more versatile personal digital assistants (PDAs), such as Hewlett-Packard's OmniGo and Sharp's Zaurus, Pilot doesn't allow me to send faxes, collect E-mail, track expenses, or play solitaire. What it does do extremely well is allow me to easily update my address and schedule information on my desktop or Pilot. The Windows version of the $299 Pilot, from the Palm Computing Div. of USRobotics (415 949-9560), will be in stores in early April. A Macintosh model is due in early summer.

INSTANT EXCHANGE. Pilot was designed as a computer accessory rather than a free-standing PDA. It has a plastic cradle that attaches with a cable to a port on your desktop. Set the Pilot in the cradle, press a button, and all new entries and modifications are instantly exchanged between the devices.

Pilot comes with its own personal information manager (PIM), and most people will find that this program keeps track of names, phone numbers, and scheduling just fine. But what if your entire life is already stored in another PIM—say, Lotus Organizer—and you don't want to face the trauma of changing? You may be in luck: Versions of HotSync software, which connects the Pilot to desktop programs, will be available for several leading popular PIMs.

POCKET-SIZE: *But data entry takes practice*

I tried Pilot out with Now Software's Windows 95 version of its popular Up-to-Date Mac PIM. While there were some rough edges to the early test version, it looks as if it will work fine when it ships, probably in April. Other early synchronization products will handle Campbell Services OnTime and Franklin Ascend. Meanwhile, a company called IntelliLink is building synchronizers for a variety of PIMs, including Organizer, Microsoft Schedule+, and Starfish Sidekick.

The biggest difficulty is entering data directly into Pilot. This requires using Graffiti, a shorthand developed by Palm for the Apple Newton. It's not hard to learn, and I found the accuracy quite good. But it takes a bit of investment in time. Given Pilot's other virtues, learning Graffiti is not a bad trade-off.

SPEEDIER NEWTON. At the opposite end of the PDA scale in size and price, Apple is trying to breathe new life into the Newton, which can run a large assortment of software and even surf the Internet. Apple offers a new version of its operating software in the $699 MessagePad 120 and is adding a backlit screen in the $799 MessagePad 130. The new software features speedier performance and better links to Mac and Windows programs, but the biggest improvement is in Newton's handwriting recognition. Instead of pursuing the chimera of recognizing cursive scrawls, Newton now expects you to print, which works wonders for accuracy. Apple also sells an accessory keyboard for data entry.

My objection is that the 19-ounce, 8-inch-by-4-inch unit is too bulky. Newton is finding a market among specialized users, such as doctors who need to jot down notes and write prescriptions while on hospital rounds. But business users may find it overkill.

The good news is that, in the next year or so, speedy new low-wattage processors, especially Digital Equipment's StrongARM, may bring Newton-like power to a package the size of Pilot. That will be a killer combo.

BULLETIN BOARD

SPEAKERS

BOOMING BASS

Computer speakers built into your monitor can be a space-saving convenience, but the sound quality often leaves quite a bit to be desired. The small speakers produce a tinny sound with little bass. The newest multimedia displays from Nokia (800 296-6542)

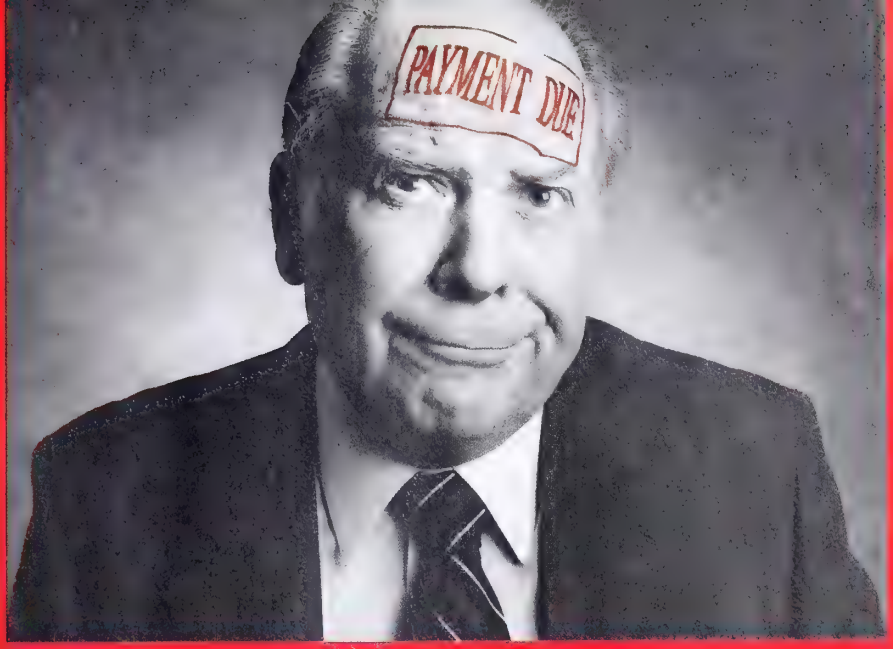
take built-in sound to new lows by building a subwoofer into the display's tilt-and-swivel base. The $999 Multigraph 447Xav can display up to 1,600 by 1,200 pixels on its Sony Trinitron screen. The otherwise similar $1,499 Multigraph 447K (shown) adds a camera for videoconferencing

LAPTOPS

LOW-PRICED PENTIUM

Its case won't win any fit-and-finish awards, and the built-in speakers sound like early gramophone. But for pure, cheap power, it's tough to beat the XP5 Pentium laptop from WinBook Computer (800 468-7502). Prices for the XP5 with 16 megabytes of RAM range from $2,999 for a 75-Mhz unit to $3,799 for 120 Mhz. The WinBooks features a choice of an "eraser-head" pointing device, an optional trackball ($30), or a touch pad ($80). Installing the devices is a bit tricky, so all but the most adroit should have a technician swap the parts.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125



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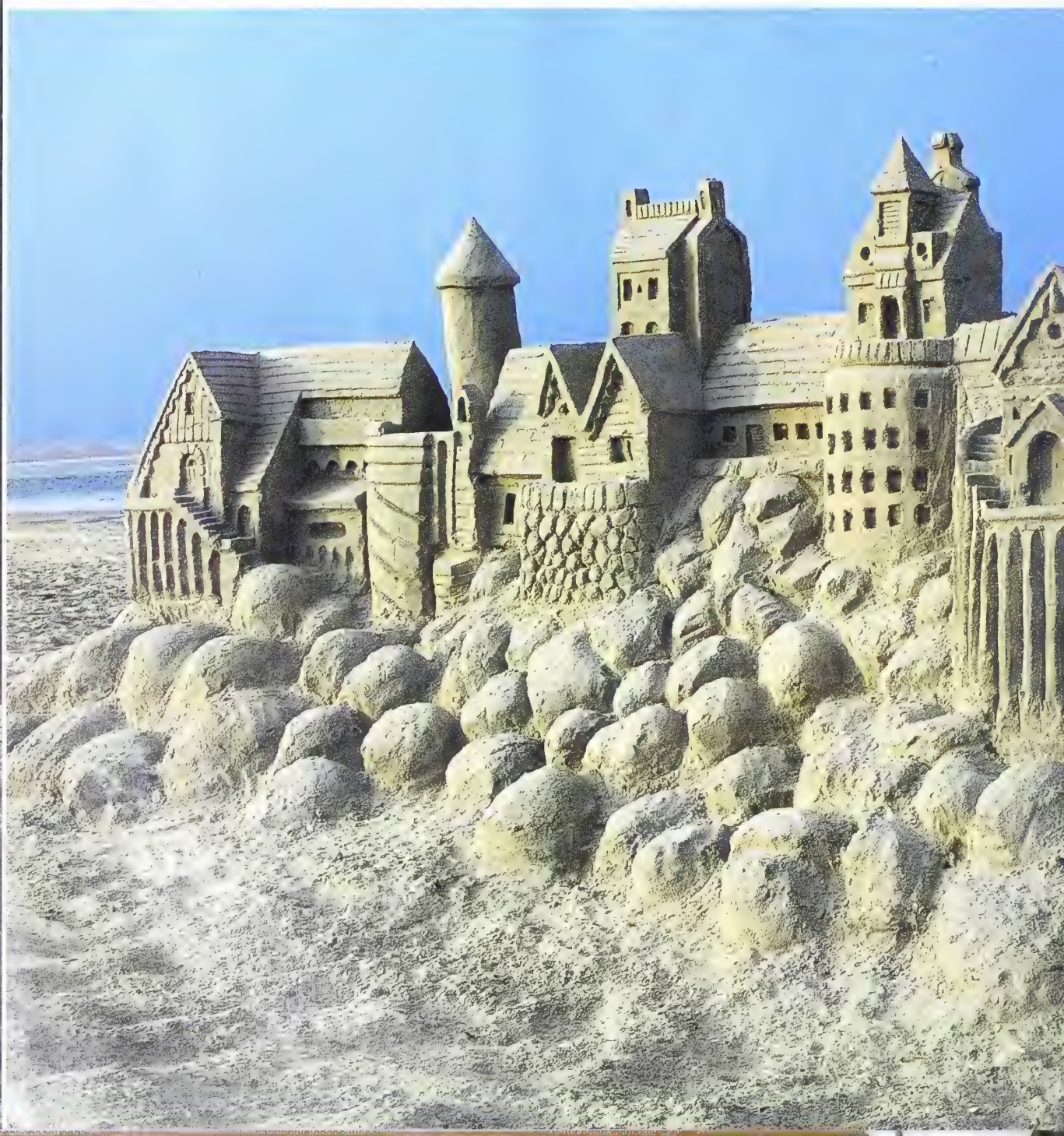

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BY ROBERT KUTTNER

LIVE BY MARKET FORCES, BUT DON'T DIE BY THEM

CUSHION: Only a new social compact that includes health care, training, and, above all, full employment can assuage the pain of downsizing

On a recent edition of NBC's *Meet the Press*, Pat Buchanan was lambasting foreigners for stealing American jobs and berating big corporations for laying off workers. Buchanan had an easy remedy: tariffs and quotas against imports. "What would you, as President, do [about AT&T's layoffs]?" asked interviewer Tim Russert.

Buchanan was at an uncharacteristic loss for words. "That's a tough question. I don't have the answer," he finally admitted. Does anybody? In the new, hypercompetitive economy, every CEO feels the need to be lean and mean. Long-term obligations to employees appear to be a relic of a bygone era.

Free-market conservatives think the answer is lower taxes, more deregulation, smaller government, and freer competition. All of this will supposedly stimulate growth, and growth will benefit everyone. But the economy has been moving precisely in the direction of freer competition ever since Ronald Reagan took office—and insecurity has only intensified. This is hardly surprising, since the fewer constraints there are on market forces, the freer companies are to treat employees like commodities.

What, then, to do? In my last column, I praised Senator Jeff Bingaman's (D-N. M.) proposal to encourage corporations to treat employees more like "stakeholders." Under Bingaman's plan, corporations that invested in their workers, gave them decent health and pension benefits, and had measures to cushion layoffs would receive preferential tax and regulatory treatment. This is fine as far as it goes, but it doesn't dispose of Russert's question to Buchanan. A company such as AT&T could subscribe to Bingaman's good-conduct code but still pursue downsizing. So in addition to the kind of social compact Bingaman offers, we need two more remedies.

SOCIAL TARIFFS. The first is full employment. The displacement that has become endemic to American industry will be bearable only when other jobs are plentiful. Education and training are lauded as a big part of the solution, but education alone does not produce jobs. Many workers being displaced by today's downsizing are well-educated. The Federal Reserve must remove the cap on economic growth.

The second remedy is social income. Providing a new kind of social compact between corporations and employees is fine, but fewer and fewer people are employed by large corporations. Who is the other party to a social compact with a worker who is self-employed? In an economy of shifting employment, benefits must be universal. These can include health insurance as a perquisite of citizenship, not employment; fully portable pensions and lifetime training opportunities in the form of vouchers. This is a new kind of welfare state—one that facilitates flexible employment and entrepreneurship rather than subsidizing unemployment.

Fairer trade is part of this story. Truly free trade requires symmetrical market access and U. S. trade negotiators should bargain hard for it. And if we Americans decide on certain social standards at home, we can reasonably insist that those who enjoy free access to our markets either observe the same practices or pay a social tariff. We should not freely import products from nations that allow child labor, prison labor, or prohibit unions.

HARD-WON GAINS. Greater corporate regulation, full employment, more social spending and global labor standards—this is hardly Pat Buchanan's kind of program. Buchanan rightly calls attention to the issue of economic insecurity. But Buchanan's remedy of simple nativism doesn't address all the economic instability that is homegrown.

A generation ago, a more managed economy made for a more stable workplace. Basic industry was either regulated or oligopolistic. The AT&Ts, NBCs, and GMs could make long-term commitments to employees. American industry was also more heavily unionized. To the naked eye, much of this looked like benign paternalism or the accidental byproduct of American global ascendance, but a lot of it was the result of hard-won struggles by unions and other protagonists of a managed economy.

In the 20th century, liberal and moderate pragmatists invented a mixed economy to temper the cruelty of a pure market system. Today, conservative visionaries are invoking the technical imperatives of the 21st century to offer a reversion to a 19th century brand of capitalism.

It took the most conservative candidate to raise the issue of economic insecurity. But Buchanan's conservative populism is not serious about a remedy. The more market forces are let loose, the more we need countervailing social cushions. The situation calls for a new mixed economy. To scapegoat foreigners is a very poor substitute.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

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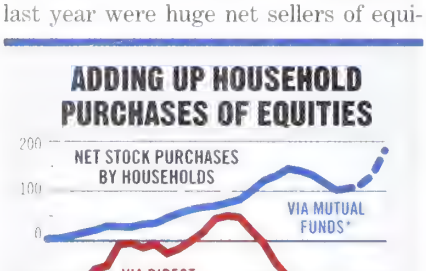
BY GENE KORETZ

EYES ON THE EQUITY PRIZE

Households aren't net buyers—yet

As many observers see it, if there is one factor behind the U.S. stock market's incredible performance last year and its continued rise in early 1996, it is the unprecedented surge in household purchases of equity mutual funds. Indeed, the Investment Company Institute reports that equity funds experienced a veritable tidal wave of demand in January and February, racking up net sales of around $50 billion.

Focusing on purchases of mutual-fund shares, however, could dramatically overstate American households' demand for corporate equities—at least up to now. The Federal Reserve Board's flow-of-funds data indicate that households last year were huge net sellers of equities they held directly—disgorging some $168 billion worth of stocks, more than enough to offset an estimated $128 billion worth of purchases of equity funds.



▲ BILLIONS OF DOLLARS, 4-QUARTER MOVING AVERAGE
*DASHED LINE BASED ON INVESTMENT COMPANY INSTITUTE DATA
DATA: FEDERAL RESERVE BOARD, INVESTMENT COMPANY INSTITUTE

This is nothing new. Aside from 1992 and 1993, Fed data show households have been heavy net sellers of equities since the early 1980s. Yet stock prices have moved dramatically higher through most of this period, spurred by falling interest rates, steady economic growth, and a net decline in equities in the wake of stock buybacks and continued merger and acquisition activity.

Indeed, economist Edward E. Yardeni of Deutsche Morgan Grenfell/C.J. Lawrence Inc. points out that the big factor stimulating household direct sales of equities over the past decade has been the retirement of stocks via mergers and buybacks. Net purchases of equities (including fund shares) by households have actually moved almost in tandem with net stock issuance. "Rather than being active sellers," says Yardeni, "household investors have tended to passively pocket the capital gains provided by mergers and stock buybacks."

The good news is that households may now be putting more cash into stocks and becoming net buyers. Yardeni notes that the surge in equity fund sales has been matched by a record flow into savings accounts and money-market vehicles. And the personal savings rate is rising—from 3.8% in 1994 to 4.8% late last year and 5.3% in January.

"The stock market," says Yardeni, "may finally be starting to feel the effects of the baby boomers entering their top earning and savings years."

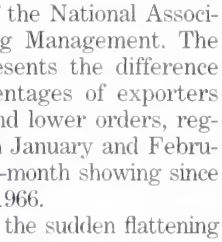
WINTER KILLS U.S. EXPORTS

Shipments to Europe are way off

Economic observers have been counting on expanding exports to keep the sluggish U.S. economy moving ahead in 1996. After all, exports were one of the star performers in the U.S. economy last year, accounting for some 44% of 1995's growth and rising at a nifty 10.9% annual rate in the fourth quarter.

Now, however, a warning flag has suddenly appeared—in the form of the export order index of the National Association of Purchasing Management. The index, which represents the difference between the percentages of exporters reporting higher and lower orders, registered zero in both January and February—the worst two-month showing since it was initiated in 1966.

The big factor in the sudden flattening of export orders, says Maury N. Harris of PaineWebber Inc., appears to be a drop in demand from Europe, where slow growth has been exacerbated by unusually harsh winter weather.



▲ PERCENT COMPANIES WITH RISING ORDERS MINUS PERCENT WITH FALLING ORDERS
DATA: NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT

What has not changed, though, is the competitiveness of U.S. exports, which are still positioned to benefit from any pickup in foreign economic activity. Economist Michael Moran of Daiwa Securities America Inc. notes that even with a relatively weak dollar, U.S. goods producer have been steadily lowering their ex port prices since mid-1995.

JUST HOW HIGH IS TOO HIGH?

Total stock values approach GDP

Whatever the source of the stoc market's strength, one measur that suggests prices are top-heavy the ratio of stock market capitalizatio to gross domestic product. Economis David Hale of Kemper Financial Se vices Inc. estimates that the ratio wa 87.5% in January, compared with th previous postwar peak of 79% in 1968

Before pressing the panic butto however, Hale urges investors to co sider that the U.S. corporate sect now has about a fifth of its output l cated in other countries. So if America GDP is adjusted to include the $1.6 tri lion in U.S. corporate sales abroad, th capitalization/GDP ratio drops to abou 74%. "That's still high," says Hale, "bu far less worrisome than 87.5%."

WAGES THAT GO UP IN SMOKE

Teens who light up take home less

The recent rise in teenage smokin (BW—Feb. 26) demonstrates ho hard it is to get youngsters to take fu ture threats to their health seriousl According to a new National Bureau Economic Research study by Philip Levine, Tara A. Gustafson, and Ann Velenchik, however, young smokers fac a more immediate penalty than medic problems in their mature years.

Based on a 1992 survey of men an women 27 to 34, the researchers foun that smokers working full-time earne 4% to 8% less on average than compara ble nonsmokers, even after controllin for such factors as education and famil background. While smoking had no ap parent negative effect on employmen the study indicates that smokers fac wage discrimination once they're hired— perhaps because employers find them les productive or more prone to health prob lems, or simply because employer att tudes mirror public aversion to smoking

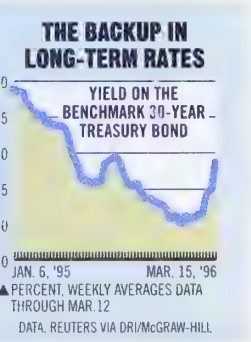
Whatever the reasons, the study' findings carry a clear message for youn workers: Taking up smoking just isn' a smart career move.

Y JAMES C. COOPER & KATHLEEN MADIGAN

THE BIG BOND SCARE: T'S NOT IN THE NUMBERS

U.S. ECONOMY

Wall Street can be a dangerous place when the markets et blindsided by unexpected economic data. That's hat happened on Mar. 8, when word came that Feb- ary payrolls had skyrocketed by 705,000 employees, vice as many as expected, and that the jobless rate d fallen from 5.8% to 5.5%. Panic-stricken traders uld utter only a single word: sell. Everyone else aited on edge for sanity to take hold.



Blame the bond market. The 30-year Treasury bond took one of its worst one-day pummelings since it first began to be traded in 1977, sending the yield to 6.72% (chart). Stocks came tumbling after. Bond traders concluded that tight labor markets and a robust economy would fuel wage and price pressures, causing the Federal Reserve hike interest rates. It's a logical scenario, given the ta. It's also probably wrong.

To be sure, the Fed is now highly unlikely to make a ove at its Mar. 26 meeting. It had been expected to ave another quarter point off rates, but the job num- ers take away any justification for an immediate cut. Still, that's not to say further easing this year is out the question. It isn't, especially since higher long-term terest rates dampen the outlook for housing and oth- interest-sensitive sectors, and since the outlook for in- tion is as tame as ever. The Fed's Beige Book report, repared for its upcoming meeting, described economic nditions through early March as "moderate to sol-," with "subdued" wage and price pressures.

S FOR THE ECONOMY, the markets have grossly isinterpreted what the February employment report ys about the first quarter, and it says nothing about usiness conditions beyond that period. Payrolls re- ounded because in January the blizzard in the East, e government shutdown, and two strikes had cut nployment by 188,000.

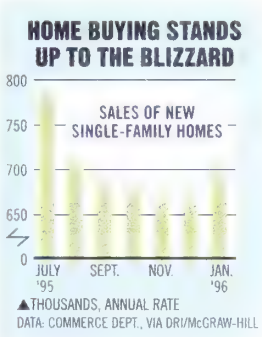
The surprising strength of the rebound arose partly ecause five weeks—not the usual four—had elapsed etween the government's January and February sur- eys. That always inflates the results. Also, January and ebruary are unusually difficult months to adjust for asonal trends. Unadjusted payrolls in those two onths are always the weakest of the year, so the government's seasonal adjustment lifts them up. That process can especially exaggerate gains when there is a five-week gap between surveys.

The perfect example is the highly seasonal retail sector. The data show that retailers added 166,000 workers in February. That seems hardly believable, when industry employment during all of 1995 rose only 222,000, and when many retailers are downsizing amid a glut of stores and picky consumers.

The February payroll surge lifts the three-month average of job growth to 220,000 per month, from 140,000 at the end of last year. However, such a sudden shift goes against the recent upward trend in initial unemployment claims. Claims during the first quarter are running higher than they did during the fourth quarter.

EVEN WITH THE STRONG February job showing, though, first-quarter economic growth still looks soft. Overall hours worked—employment times the workweek—surged by 3.2% in February, after falling 2% in January. But even assuming a modest gain in March, the first-quarter average of hours worked is no higher than it was in the fourth quarter.

Since hours worked are a key indicator of the growth in real gross domestic product, the economy in the first quarter appears to be growing in the neighborhood of 1%. In fact, the net job gain of 517,000 in January and February about matches the 499,000 posted in January and February of last year, but that didn't prevent GDP in the first quarter of 1995 from growing at a tepid annual rate of only 0.6%.



That won't keep the bond market from worrying, though. Last month's jobs report suggests that much of the February economic data will look exceptionally strong, since various government agencies use pieces of the employment report to flesh out their own data. February industrial production, capacity utilization, personal income, and other numbers are bound to look pretty muscular. But again, their first-quarter averages vs. the fourth quarter's will not look so hot.

Amid all the distortions, one sector of the economy does show some genuine—and surprising—strength. That's construction, especially single-family homes (chart). If any sector should have fallen victim to the

January weather, it was construction. However, housing starts, home sales, and overall construction spending all rose in January. Construction employment, which increased by 17,000 in January, surged by 121,000 in February.

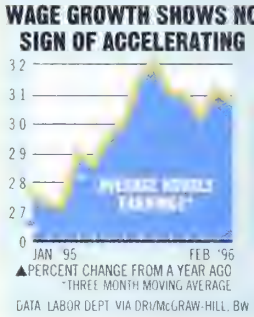
In particular, sales of new single-family homes rose 4.2% in January, to an annual rate of 693,000. Even though the blizzard pushed sales in the East down 40%, strong buying elsewhere, especially in the West and Midwest, fueled the increase. The advance was the biggest in six months, and it was undoubtedly boosted by the low mortgage rates of December and January.

BUT THERE'S THE RUB: Interest rates have jumped. Already, mortgage applications for both purchases and refinancings have fallen. Looking forward, higher rates will dampen housing this spring and summer as well as demand for housing-related and other interest-sensitive big-ticket items. That could hamper any prospective rebound in manufacturing, where low rates had been expected to lift orders, clear out inventories, and boost production.

Despite the supposed ebullience of the 552,000 increase in the service sectors of February's employment report, manufacturing payrolls managed a gain of only 26,000 jobs, after a loss of 75,000 in January. Assuming a modest March gain, hours worked in manufacturing are on track to fall at an annual rate of 4% from their fourth-quarter level.

Although February industrial production will rebound, the United Auto Workers strike against General Motors Corp. will depress both factory payrolls and output in March. The strike has shut down nearly all GM plants and idled some 83,000 workers, during the week that the Labor Dept. takes its payroll survey.

Of course, the bond market's biggest worry is inflation, which can eat away long-term yields. But the tamest part of the February employment report was wage growth. Average hourly earnings dipped 0.1% in the month, to $11.65, and the trend of annual wage growth is flat, if not down a bit, from the pace of mid-1995 (chart).



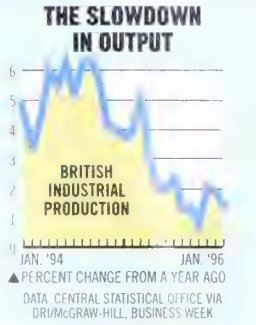
Right now, the bond market is shell-shocked after the explosion from the job data. It will need to be coaxed out of its hole in coming months with evidence that the economy is in no danger of overheating and that the Fed will not start jacking up short-term rates. Although the employment report was a stunner, the bond market simply did one of the things it does best: It overreacted.

BRITAIN

EASIER MONEY, LOWER TAXES: HAPPIER BRITONS?

Faced with tepid economic growth and low inflation, British monetary authorities trimmed the base lending rate by one quarter-point, to 6%, on Mar. 8, the third cut since December.

The rate cuts, initiated by Chancellor of the Exchequer Kenneth Clarke, will provide help to the housing and consumer sectors. Housing starts fell 15% in January, in part because of cold weather but also because of excessive inventories. First-quarter data on consumers look a bit better. Consumer confidence remains high, and car sales in February rose 7.5% from January. But unemployment jumped an unexpected 6,800 in February. Still, household finances will get a boost over the next 18 months, as building societies convert to private companies or merge with banks, handing out windfalls to borrowers and savers running as high as $10,000.



Britain's industrial sector, however, is struggling, as export growth is lackluster. Industrial production was up 1.3% in the year ended in January (chart), while manufacturing output rose 1.3%. The Confederation of British Industry's survey found a further slide in orders in February, and companies plan small increases in future output.

Although analysts speculate that Bank of England Governor Eddie George opposed the latest rate cut, he certainly could not argue with Clarke that inflation is a problem. Retail prices fell 0.3% in January, to stand 2.9% above a year ago. That's a full percentage point below the annual inflation rate in September. The underlying rate, which excludes mortgage interest payments, was 2.8%, suggesting that it will hit the government's target of 2.5% by the spring of 1997.

The rate cut follows the announcement of some 3 billion pounds ($4.5 billion) in tax cuts. Both policy moves are politically motivated, since the Conservative government must face elections by May, 1997. Cheaper borrowing costs and lower taxes will surely help British consumers and industry. Whether they will lift the Tories' fortunes is unclear.

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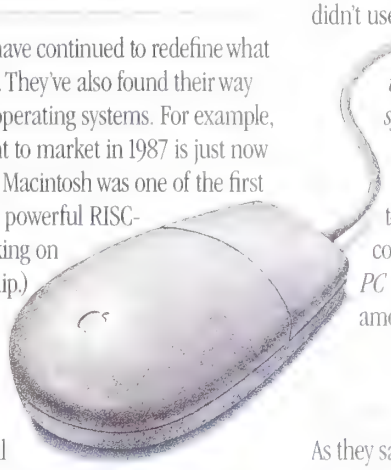


More than a few of the things that seem standard on a personal computer today, were pioneered by Apple

As a result of these Apple innovaons, ordinary people can sit down at all inds of PCs and actually get some work one. Of course, if they sit down at a lacintosh, they can build 3-D graphics. Use virtual reality in very real ays. Videoconference across continents. Collaborate with colleagues on he far side of the corporate campus. Build interactive sites on the World Vide Web. And more. That's the Mac advantage.

People do know the difference.

oday, 56 million people do their work the Macintosh way. Some in chool. Some at home. And, when you look at the numbers from recent udies, quite a few in business. We command a 47% share of the U.S. ommercial publishing market. And 76.2% of the color pre-press market. nd though our dominance in graphics-related businesses may not shock you, consider this: we have a 50% share of the chemical, pharmaceutical, biotechnology, scientific and engineering computing markets.

And then, there's the fact that Macintosh brand loyalty is the highest of any PC in the world: 90% of Macintosh customers buy a Mac the next time around. Which leads people like Andrew Laham, MIS Director at the law firm Fleming, Hovenkamp & Grayson, to say, "*There would be a major crisis if we had to do without Macs. In fact, there would be an open revolt.*" Indeed, if the mail we've received lately is any indication, more than a few CFOs out there would revolt, too, if their companies didn't use Macintosh computers.

"*NASA saved $800,000 a year on maintenance alone when we replaced their legacy system with a Macintosh system,*" says Steve Monteith, a member of the Research Triangle Institute TechTracS Team.

And if you replace a Windows system with a Mac? According to a recent study by the Gartner Group, you'll save 25% on support costs. And there's more. *PC World* magazine—that's right, we said *PC World*—ranked Apple as one of the best for reliability and service among all makers of personal computers.

See the future. Turn on a Mac.

As they say, you can't simply rest on your laurels. So what's next? Let's start with Copland, our upcoming operating system.** Copland won't just change the look of the Macintosh desktop; it will incorporate an entirely new technology called OpenDoc™ that will change the way you think about computers. (Sound like hype? Check out *InfoWorld*—they named OpenDoc the winner of the 1995 Landmark Technology Award.)

And then there are the 53 new software patents we were awarded in 1995, patents on everything from wireless communication, power management and manufacturing systems to data encoding, data compression and encryption. That's more than enough innovation to bring another generation, or three, of intelligent business tools to market.

The kinds of tools that keep your productivity up. Your costs down. The kinds of tools that keep your people motivated to push the limits. To challenge the unknown. To discover the unexpected. And bring it to market. You know, the same things we keep doing with Macintosh. Year after year.

Apple

http://always.apple.com

LABOR

BRACING FOR THE BIG ONE

A local GM strike may kick off a long brawl over jobs in the auto industry

For General Motors, it was like the throb of a migraine headache building to a sickening crescendo. First, angered by the company's aggressive farming out of work, 3,000 workers struck two brake-parts plants in Dayton, Ohio. Then, as brake inventories ran out, GM had to shut down its car and truck plants, one by one: Pontiac, Mich.; Lorain, Ohio; Flint, Mich.; Ste. Thérèse, Quebec; Linden, N.J. Twenty-two of GM's 29 North American assembly plants had gone idle by Mar. 13. Management and the United Auto Workers grudgingly agreed to resume bargaining and seemed likely to settle their differences. But the painful toll remained: $50 million a day in forgone pretax earnings, analysts figure.

Welcome to one tough labor bargaining season. For GM—and probably for crosstown rivals Ford Motor and Chrysler—this is a pounding headache that's likely to last all year. The Dayton strike is the latest in an escalating series of local walkouts against General Motors Corp. and Chrysler Corp. that foreshadow talks to start this summer over new three-year contracts with the Big Three. And when union leaders convene on Apr. 1 in Detroit to plan their bargaining strategy, the flashpoint issue will be the same as it is in Dayton: shipping out parts-making work to outside suppliers.

The wrangling over outsourcing will only get fiercer as the union grapples with which of the Big Three to target for a potential strike and how to protect its pension rights and $45-per-hour pay and benefits package. And despite its recent humbling defeat in the 18-month-long strike against Caterpillar Inc., the UAW still considers a walkout its ultimate weapon in a war of nerves with the auto makers. "We're not strike-happy, but that's the only way to get the attention of top management," says UAW President Stephen K. Yokich, who took over the union's top post last June.

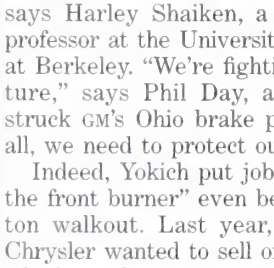
The larger issue raised in Dayton is whether Yokich is shifting the union's emphasis from wage hikes to job security. Historically, the UAW has accepted weaker layoff guarantees than it wanted in exchange for income protection for laid-off workers and above-inflation pay gains. Union members still want healthy raises when their labor contracts expire on Sept. 14. But Yokich also seems more determined to slow job loss from outsourcing. The issue may even spark Detroit's first national strike since 1985, says Harley Shaiken, a labor studies professor at the University of California at Berkeley. "We're fighting for our future," says Phil Day, a worker who struck GM's Ohio brake plants. "Above all, we need to protect our jobs."

Indeed, Yokich put job retention "on the front burner" even before the Dayton walkout. Last year, for instance, Chrysler wanted to sell off its antiquated glass plant in Detroit, only to be met with a potentially crippling three-day strike. To achieve peace, Chrysler had to relent on its sale plans and agree to invest $70 million in new equipment at the factory. "Clearly, the UAW will be very vigorous in trying to save jobs," says one Big Three executive. "We expect to get beat up on outsourcing."

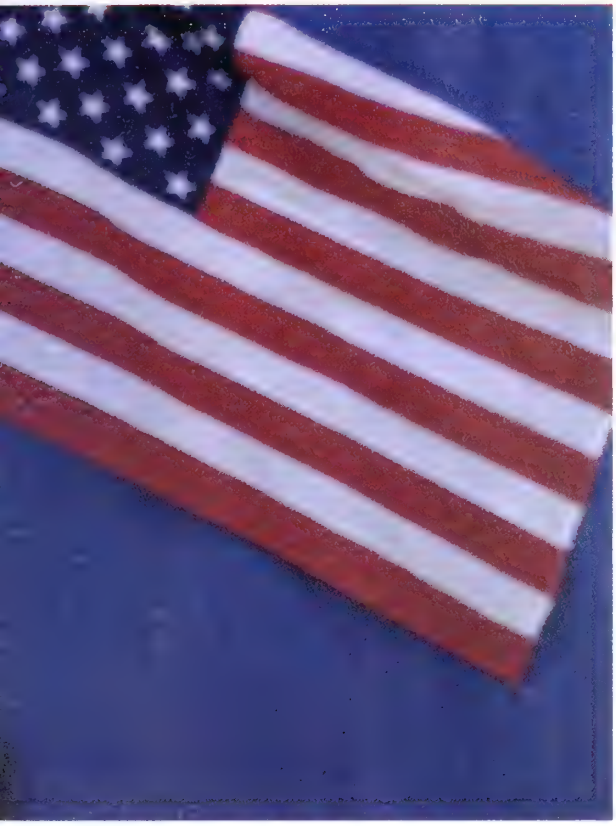
DAYTON STANDOFF: *Will the UAW make GM its prime strike target?*

"TO THE BARRICADES." GM is by far the most vulnerable. While Chrysler produces only 30% of its own parts and Ford Motor Co. about 50%, GM makes close to 70% of its components at a sprawling network of 194 plants. Workers in GM's Delphi brake-parts unit earn the same pay as assembly workers, while most outside suppliers pay much less. Big investors have relentlessly pressured GM to hand off more business to outside suppliers. "The competitive situation does not permit GM to have unproductive parts plants," says John Casesa, auto analyst at Schroder Wertheim & Co. in New York.

That's why GM put its foot down in Dayton. The strike was triggered in part by the GM's decision to subcontract out some parts work and to



GM'S BATTENBERG
Some 14 of GM's 194 parts plants lose money, claims Battenberg. The UAW says that the company earned $6.9 billion last year and is trying to ax jobs at little plants



SHOWDOWN IN DETROIT

Key issues the United Auto Workers will consider in labor negotiations with the Big Three this fall

OUTSOURCING

General Motors, which says 14 of its 194 parts plants are losing money, wants to cut costs by subcontracting more work to outside suppliers. The UAW's response: Resistance, most recently through a strike at a GM brake-parts plant in Dayton, Ohio.

WAGES

Given the auto makers' record profits, union members expect fat hikes in their $19-per-hour pay. But Detroit faces a renewed threat from Japanese and European rivals, and it wants to limit increases to retain pricing flexibility.

PENSIONS

The Big Three expect 240,000 workers to retire or leave by 2003, creating huge new pension costs. But the UAW is expected to reject any efforts to curb such spending.

PRIME TARGET

The big issue: Whether to target cash-rich Chrysler or still struggling GM as labor's main target. Chrysler can afford a more generous contract, but GM might face a strike if the pact is too costly.

y antilock brake systems for two 1998 odels from Germany's Robert Bosch. e union claims that would cost 125 fure jobs—and renege on a deal GM made o years ago after a similar strike. hey agreed to bring work in, and they oke their promises," says Joe Buckley, official of UAW Local 696 in Dayton.

But GM argues the Dayton workers iled to meet productivity goals needed win brake work on new models. To t the point across, the company broke f talks three days into the strike. With oversupply of cars on dealer lots, ling plants wouldn't hurt much. So GM ade no move to return to the table unplants building high-profit trucks were rt. Says a GM spokesman: "The union lieves that competition does t matter and they have a ght to the business."

The Dayton strike demonrates that a strategic walkt at a parts plant can quick- shut the giant down. One ason: GM, like other manucturers, has increased its use just-in-time inventory methls, which require plants to eep only a small stock of rts on hand. Says a source ose to the UAW: "The union s more power today than er because the companies e more vulnerable to a strategic strike than they've ever been."

The head-butting won't stop anytime soon. Parts chief J.T. Battenberg III claims that 14 of GM's 194 components plants lose money. "We're working with the unions to make fixing our troubled operations a high priority," he says. But that does not wash with the UAW. "The company made $6.9 billion last year, and here they're talking about hundreds of jobs they don't need at these little plants," says Sean McAlinden, a University of Michigan labor expert. "The union will go to the barricades on that." And in this election year, job preservation is an especially potent issue.

The big question in Detroit: Which company will the UAW pick as the strike target? In pattern bargaining, the UAW usually chooses one company to negotiate with first, and then tries to impose that deal on the other two. In 1993, for example, it picked Ford, then the industry's healthiest player, and followed with Chrysler. That left GM for last, in tense talks that went right down to the wire.

CASH HOARD. This year may be Chrysler's turn to go first, say union officials. The No. 3 auto maker hasn't been chosen as the union's target since 1973, and its $7.5 billion cash hoard is as enticing to union members as it was to investor Kirk Kerkorian. With the lowest level of outsourcing among the Big Three, Chrysler's parts operations also represent an inviting opportunity for the union to try to gain jobs. "We won't be looking to freeze outsourcing at Chrysler," says one UAW official. "We want them to bring more work back in."

Trouble is, a contract with outsourcing limits that Chrysler can live with might be tough for GM to swallow. In that case, GM might resist—and face a strike that would be costly for company and union alike. If Yokich wins an early victory with the strike that began in Dayton on Mar. 5, he may enter the April bargaining convention on a wave of rank-and-file support. And each round of applause will worsen the sick pounding GM already feels in its temples.

By Bill Vlasic in Detroit

THE UAW'S YOKICH

Hard on the heels of the union's humbling defeat at Caterpillar, Yokich says: "We're not strike-happy, but that's the only way to get the attention of top management"

TOBACCO

A BREACH IN THE WALLS OF FORTRESS TOBACCO

Will settling Liggett's lawsuits clear a path for RJR's breakup?

In times of crisis, the weakest link always is the most dangerous. In the $45 billion tobacco industry, the weak link is Liggett Group, a gnat of a cigarette company run by renegade Florida investor Bennett S. LeBow. On Mar. 13, Liggett broke ranks in outrageous fashion, announcing that it has settled an enormous class action and that it is close to an agreement on anti-tobacco lawsuits brought by four states.

SOLIDARITY UP IN SMOKE: LeBOW

Liggett's highly risky action may not work. And it threatens to derail a legal strategy that, for years, has served Big Tobacco extraordinarily well: Never buckle, never settle, and never break ranks. Under the terms of a pending agreement, Liggett—which holds just a 2% share of the tobacco market—settles four suits brought against the industry by Mississippi, Florida, West Virginia, and Massachusetts.

BAD BLOOD. In a separate agreement, Liggett also settled what's known as the Castano class action—brought by the friend of a deceased smoker on behalf of all addicted smokers. The terms of Liggett's withdrawal from the two legal actions: At most, a relatively modest 12% of pretax earnings over 25 years, or some $2 million a year. By withdrawing from the suits, moreover, Liggett will significantly reduce its $10 million in annual legal costs.

Liggett's giant rivals were nonplussed by the company's legal capitulation. "Our clients intend to defend the litigation, continue to litigate, have no intention of settling, and didn't know what Mr. LeBow was doing," says David A. Hardy, outside counsel to Philip Morris Cos. and Lorillard Inc., and a partner at Shook, Hardy & Bacon in Kansas City, Mo.

Few within the industry, it turns out, knew about LeBow's settlement plans—including Liggett's own litigators. But if his negotiations were secret, his motives are obvious. First, he wanted to cap Liggett's exposure to a courtroom loss—one that could bankrupt his company. More important, the deal clears the decks for LeBow's long-term effort to force RJR Nabisco Holdings Corp. to spin off its profitable food unit from the tobacco company. On Apr. 17, RJR shareholders will vote on the plan, proposed by LeBow and investor Carl C. Icahn.

The agreement could help LeBow in his proxy battle by addressing RJR management's argument that anti-tobacco forces would legally block any attempt at a Nabisco spin-off. "This knocks [RJR-Nabisco's] defense right out from under them," says Michael L. Hirschfeld, LeBow's New York-based counsel and a partner with Milbank, Tweed, Hadley & McCloy. Moreover, LeBow's camp believes the settlement even makes Liggett an attractive takeover target by allowing an acquirer the same generous terms granted Liggett. "The deal is structured in a fashion to bring RJR into a settlement. It's being done through financial means instead of through the courthouse," says Joseph F. Rice, a lawyer with Ness Motley who helped negotiate the settlement on behalf of both Castano plaintiffs and the states.

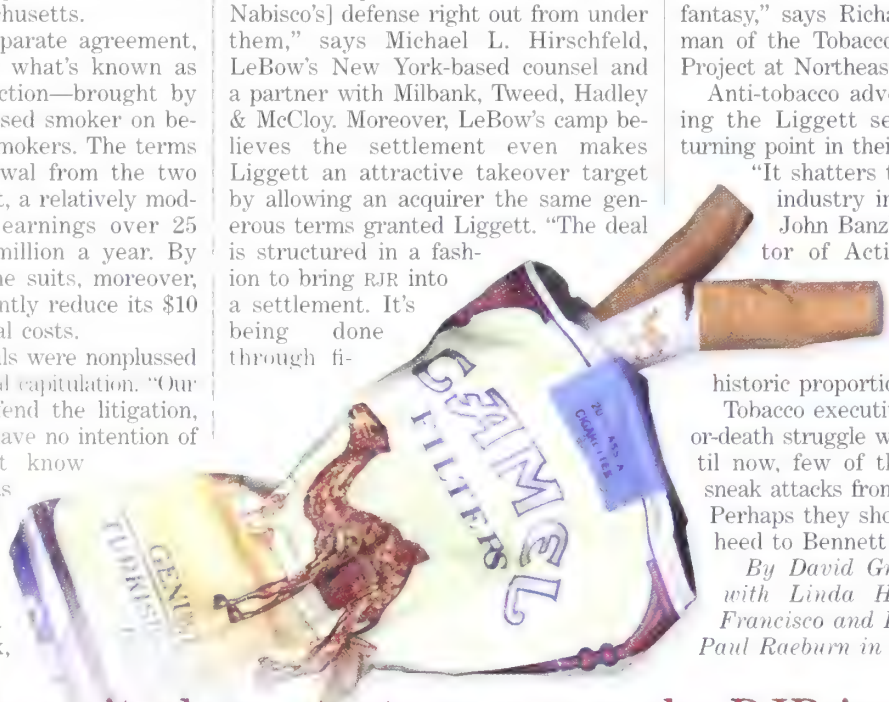
The problem: LeBow's strategy likely won't work. For one thing, Liggett's settlements won't alleviate the long-term risk of new lawsuits. And investors say LeBow's go-it-alone style makes them wary of LeBow pulling the strings in an RJR spin-off. "The problem with LeBow is that he is always looking out for himself," says Gregory L. Jackson, a portfolio manager at Yacktman Asset Management in Chicago who says he will vote Yacktman's one million RJR shares against LeBow in April. "If we can't trust the people we're working with, we do not want to do business with them."

"HISTORIC." Investors also worry that Liggett's move has seriously damaged the industry's long-term legal viability. The deal resolves the Castano class action, advocates point out—but that action may ultimately be voided anyway. And the agreement does nothing to address other class actions pending. Rather, they say, Liggett has set a precedent that antismoking plaintiffs can use to extract similar or more generous terms in future actions. "If there's any fantasy by Liggett that they can settle it all and come out O. K., I think it's just that—fantasy," says Richard Daynard, chairman of the Tobacco Products Liability Project at Northeastern University.

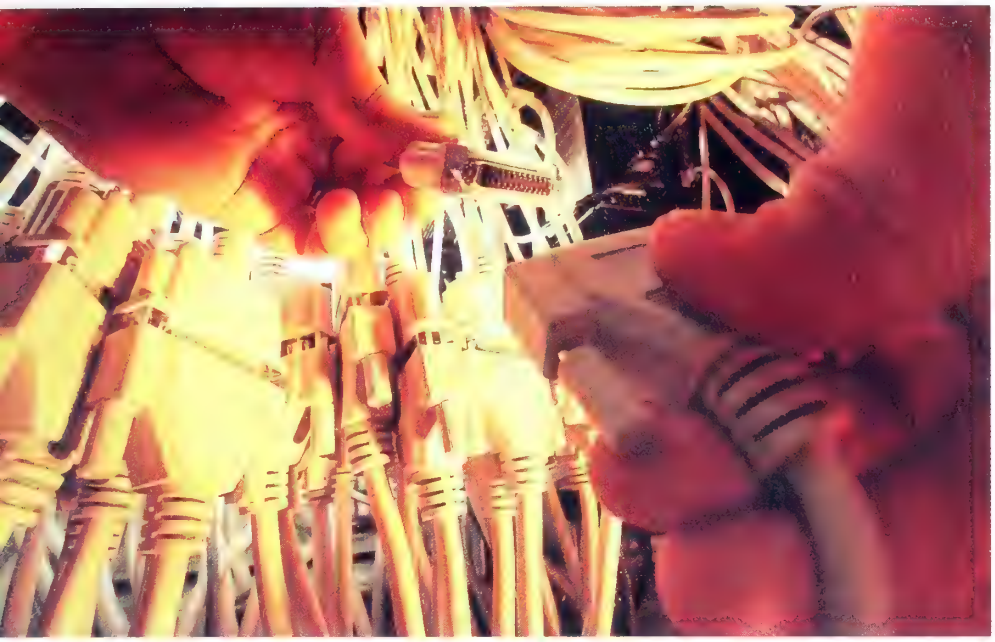
Anti-tobacco advocates are celebrating the Liggett settlement as a key turning point in their long-fought battle. "It shatters the myth of tobacco industry invulnerability," says John Banzhaf, executive director of Action on Smoking & Health. Adds anti-smoking advocate Matthew Myers: "This is truly of historic proportions."

Tobacco executives remain in a life-or-death struggle with their critics. Until now, few of them worried about sneak attacks from within their ranks. Perhaps they should have paid more heed to Bennett LeBow.

By David Greising in Atlanta with Linda Himelstein in San Francisco and Lori Bongiorno and Paul Raeburn in New York



LeBow's go-it-alone strategy may make RJR investors more wary about letting him pull the strings in a spin-off



INTERKNOT

The winner of the browser wars will be able to sell other software that works seamlessly with its Web program

HE INTERNET

BROUHAHA IN BROWSERLAND

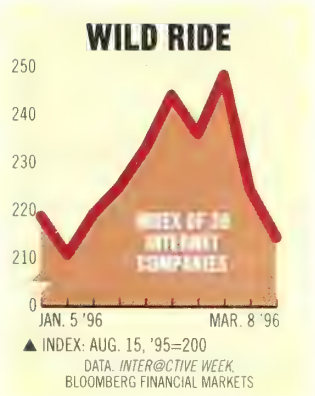
Vho will set the cyberstandard–Netscape or Microsoft?

Don't bother trying to keep score. In the battle for the hearts and minds of cybernauts, things move o quickly that even the players somemes lose track.

Consider what happened in the last ew weeks. On Feb. 27, Netscape Comunications Corp. scored a coup when T&T announced that it would provide ree Netscape Navigator browser prorams to those who sign up for AT&T's ew Internet service. On Mar. 11, Vetscape scored again, announcing that merica Online Inc. customers would oon be able to download Navigator 2.0 or free as a way to use AOL to cruise ne World Wide Web. The same day, ompuServe Inc., which had said it ould use Microsoft orp.'s Internet Explorer rowser, announced it ould also use Navigator.

On Mar. 12, though, ne tide turned—toward Iicrosoft. The software iant made the stunning nnouncement that AOL ould actually make Inernet Explorer, not Iavigator, its "preerred" browser on its ain online service. Says rad Chase, Microsoft's hief negotiator in the deal: "We were at Warp 1. Now we're at Warp 10."

On the surface, the browser wars may seem like little more than corporate one-upmanship, especially since browsers can be downloaded for free. But browsers aren't just software for navigating the Internet's World Wide Web. As the gateway to the Web, they have a strategic importance akin to what Microsoft's MS-DOS operating system has had in PCs: The company with the most popular browser can set industry standards and sell software that works seamlessly with the browser. That's why, says Douglas P. Colbeth, president of Spyglass Inc., a Web software company allied with Microsoft, "for Netscape and Microsoft, this is a holy war."



Despite Microsoft's impressive dealmaking, it's a war in which Netscape still has an edge. In February, Netscape Navigator held 81% of the browser market. Microsoft had 7%, according to a monthly random census of 100 corporations by Zona Research Inc. What's more, Navigator 2.0—which has such features as "frames" to display more than one Web page—is widely regarded as one techno-step ahead of Internet Explorer 2.0. "We're moving very quickly and staying ahead of Microsoft," declares Michael Homer, Netscape vice-president for marketing. "They're trying everything to slow us down."

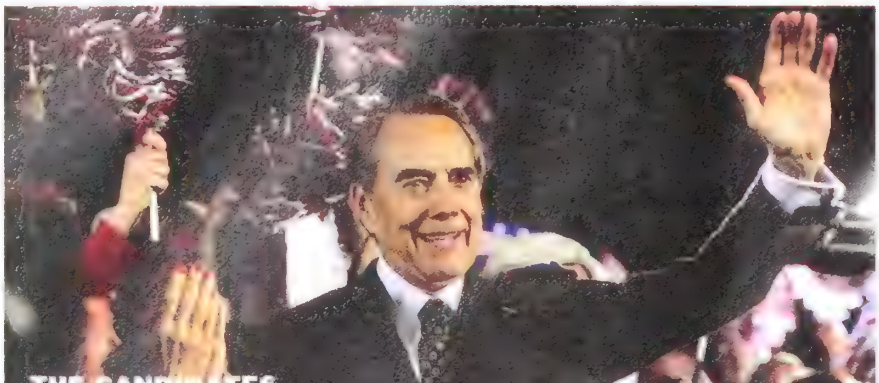
They're having some luck. Consider the AOL deal, which Netscape seemed to have sewn up. There also had been bad blood between Microsoft and AOL, which had objected loudly to Microsoft's plan to include its own online service in Windows 95. But by last November, Chairman William H. Gates III was eager to put his browser on the map and called AOL CEO Stephen M. Case. They met in early January, after Microsoft heard that AOL was negotiating with Netscape. Says Case: "We were skeptical just because of the momentum Netscape had." He had a bold proposal, though: AOL would use Internet Explorer if Microsoft would put AOL software in Win95. Microsoft didn't blink.

MORE DEALS? Still, weeks of wrangling followed, and AOL went ahead with its announcement of the Netscape pact on Mar. 11. By midnight, however, AOL was in Microsoft's camp, and Microsoft was able to announce the deal to a gathering of developers on Mar. 12. Gates says the deal is the "centerpiece" of his plan for Internet Explorer. "We get up every morning and think about browser share," he says.

So, Microsoft is still dealing. Sources close to CompuServe and Prodigy Services Co. say they're negotiating deals like AOL's, too. That could expose Microsoft's Internet Explorer to more than 10 million customers.

But don't try to do a final tally yet. Nobody knows how many consumers will jump to the Web. Nor do they know if any will stick with Explorer or download the more popular Navigator. And nobody knows how many Web surfers will sign up for AT&T's new WorldNet service—and be counted in the Netscape column. But keep your pencils sharpened.

By Kathy Rebello in San Francisco, with John Verity in New York, and bureau reports



THE CANDIDATES

PAGING GENERAL POWELL

Dole is counting on a crucial boost from his V-P choice

RIDING A WAVE? *Dole's age and other issues make the Veepstakes high*

You can tell a lot about Presidential candidates by the Vice-Presidents they recruit. Take Republican nominee-in-waiting Bob Dole. Despite the Kansas senator's impressive sweep of the Mar. 12 Super Tuesday primaries, Dole is looking for a running mate who can provide a crucial boost in what aides concede will be an uphill fight for the White House.

ELECTION '96

He is only 259 delegates shy of the 996 needed for nomination, but Dole still has a bushel of problems: age, a mushy message, and a Washington-insider image. Worse, his party is divided on social and economic issues.

President Clinton's strength in the Northeast and on the West Coast means Dole must count on winning the general election in the Midwestern swing states. That makes Dole's ideal candidate a rising young economic conservative from the Rust Belt who is acceptable to abortion backers and foes alike. Only one difficulty: That candidate doesn't exist.

COMPROMISE. Instead, Dole must weigh a compromise choice from a short list of potential Veeps. But [illegible] the most enticing candidates would alienate some faction of the divided GOP. Dole c[illegible]dants say he wants to avoid the flack that George Bush when [illegible] tapped Dan Quayl from Senate obscurity in 1988. "Bob Dole's first and foremost requirement is someone with a solid record of achievement who can succeed him [as President]," says a friend, ex-Senator Warren Rudman (R-N. H.)

To many Dole advisers, that should make retired General Colin L. Powell a natural. "There is Powell—and everyone else," says one strategist. Indeed, polls show that a Powell pick could narrow the contest overnight: A 54%-42% Clinton lead over Dole shrinks to 51%-47%, according to a Mar. 8-10 Gallup Poll of 823 registered voters. Powell would attract independents, women, and blacks, says University of Cincinnati pollster Alfred Tuchfarber.

The hitch in assembling this particular dream team: Powell isn't ready to suit up. "What he is saying privately is what he is saying in public—he will not be a candidate for elective office in '96," says political adviser Kenneth M. Duberstein. Dole insiders hope the general will respond differently if asked. Powell associates say he won't.

Another option: Dole could play the geography card. Two popular Midwestern governors—Republicans John Engler of Michigan and George V. Voinovich of Ohio—could help lock in their vital swing states. Strategists think former South Carolina Governor Carroll A. Campbell Jr. could cost Clinton Georgia, Kentucky, Louisiana, and Tennessee, states he carried in '92. And if Dole dreams of California's 54 electoral votes, he might tap State Attorney General Dan Lungren.

On the other hand, Dole could reinforce his promise to turn over federal programs to the states by picking an outsider. A grassroots reformer such as Wisconsin Governor Tommy G. Thompson, a spirited debater who overhauled his state's welfare system, might fit the bill. Engler, who scrapped Michigan's tax system, is another possibility. Texas GOP Chairman Tom Pauken says Engler is "from a big state, and he is very wired into the conservative intellectual movement."

DELIBERATION. Going for the ethnic vote is another option. GOP polls show Clinton has weak support among non-Hispanic Catholics. For the first time in history, a majority of Catholics voted Republican for Congress in 1994. And GOP strategists believe a Catholic running mate could deliver this key voting bloc to Dole. Among the possibilities: Voinovich and Pennsylvania Governor Tom Ridge.

Although those close to him don't think he will, Dole also could broaden his support by choosing a woman. That would help lure moderates and suburban independents. Leading candidates: Texas Senator Kay Bailey Hutchison and New Jersey Governor Christine Todd Whitman. Trouble is, both favor abortion rights. Buchanan blasts Whitman as a "militant pro-choice" governor whose selection would "precipitate a real walkout at the convention." That could blow the GOP apart.

Whatever the choice, Dole advisers insist he'll proceed meticulously. "Dole is going to be poring over electoral maps and sifting through polling data," says one aide. His decision will do a lot to decide if the septuagenarian is spry enough to win the White House.

By Richard S. Dunham in Washington

DOLE'S SHORT LIST

Former South Carolina Governor Carroll Campbell Jr. Charismatic conservative with a solid record. But Dole already is strong in the South.

Michigan Governor John Engler Reformist governor who could deliver a key swing state. But he is an uninspiring public speaker.

Texas Senator Kay Bailey Hutchison Would help close the gender gap. But she comes from a state where Dole is ahead.

Retired Joint Chiefs Chairman Colin Powell Hugely popular, he would draw moderates. Downside: He doesn't want the job.

New Jersey Governor Christine Todd Whitman A tax- and budget-slashing governor. But she would prompt a walkout by abortion hard-liners.

THERE IS O FREE CANDY'

erot on Dole, Clinton, Buchanan, Forbes, and Campaign '96

ith the nomination in sight, Bob Dole is taking aim at President Clinton. But both had better tch their flanks. In a Mar. 8 Dallas erview with Washington Bureau Chief e Walczak and Political Correspon- nt Richard S. Dunham, independent dfly Ross Perot pointedly refused to le out another White House run.

You have said that, rather an running for President ain, you would prefer to find nother George Washington" to the Reform Party's standard- arer. How's the search for orge II going?

If we found George Washing- n, the experts would say: orget it, he's not made for evision." There are a lot of od people. This is like *Field Dreams*. First you have to ld it, and then they will come. 'll get [the party] on the bal- in June, then have the sum- r to attract people who will outstanding Presidential can- lates. And our primary will different. Among other ngs, you will sign a document reeing not to engage in dirty cks or negative politics.

What if Reform Party dele- tes decide to draft you? Could u refuse?

I'd probably be cut to pieces the time we create the party. r objective is to have a House, nate, and White House work- together as a team, rationally ving our country's problems as posed to creating train wrecks d government shutdowns.

You decry negativism in politics, but political discourse today really so ich coarser than in the past?

The process now is so demeaning at the best people are walking away m it. Colin Powell is a good example. is [former Lazard Frères & Co. Man- ing Partner] Felix Rohatyn. He was lling to become vice-chairman of the deral Reserve Board probably for 5% what he makes on Wall Street. He t the signal that he was going to be ewed to pieces [by Republicans] in the confirmation process and decided, "Why the hell do I want to put up with this?" If we have a process so nasty that only people driven by power will touch it, then we get what we deserve.

Q: *Why do you think so little attention is being paid to balancing the budget?*
A: This is the time for free candy. This is the time for tax cuts. Just think for a minute: If the 1993 tax increase made sense, how can a tax cut make sense now? There is no free candy. A balanced-budget amendment is a must. The next part of the equation is a new tax system. Included in that is a provision that if Congress wants to raise taxes in the future they would have to take it to the people [for a referendum] in a national election. They better have some good reasons to raise taxes, right?

Q: *Republicans thought the '96 campaign was going to be about the Contract With America, and instead it turned out to be about economic anxiety. Why?*
A: Because it exists. The anxiety exists because the standard of living has been reduced for four out of five working people. Before the Revolution, every person in the U.S. paid 67.5¢ a year in taxes. Some 120 years later, it was $6.75. Then we passed the income-tax amendment in 1913, and in 1920 it had gone to $20. Today it's $5,700. But despite the fact that we've run up $5 trillion of debt, the standard of living has dropped.

Q: *What is the Perot prescription for economic insecurity, then?*
A: You've got to explain Social Security and Medicare to people. We have all these social programs. None of them work. Why? We never designed them. It's like we built a skyscraper with no blueprint. There were great dreams, noble causes, massive amounts of money—and underperformance. Our debt exceeds the amount of money in print. Isn't that interesting? Assets minus liabilities equals net worth. We have $20 trillion in assets, $22 trillion in liabilities, and a negative net worth. I think at this point Forrest Gump says: "Yep, we've got to redesign these programs."

HERE'S HOW CEOs THINK "[Pols] are going to have to punch us around a little... but once they get in office, we own them. We funded them" — ROSS PEROT

Q: *But isn't Bob Dole a veteran deficit-fighter?*
A: He doesn't understand how to do it. [In Washington] they deal with problems as if they were islands. They work on the debt, on Social Security, on Medicare—all these are pieces of the puzzle that fit together.

Q: *Is that why you criticized the GOP's big Medicare reductions?*
A: They never had a plan for how they were going to make it work. It was supposed to cost $9 billion in 1990; that was the forecast in 1965. It cost $106 billion.

Q: *Does President Clinton understand the problem?*
A: He has a magnificent understanding of salesmanship.

Q: *Surely you're not knocking salesmanship?*
A: It should be principled salesmanship that produces results. If the President gets a second term, I think we will see the real Bill Clinton—a person who is very much in favor of big government.

Q: *You feel you know the real Bill*

Clinton. Is there a real Bob Dole?
A: I think so, yes.

Q: *What's he like?*
A: I don't know. I've known him for a long time. I could tell you a lot of stories that are warm and sensitive about [Dole and] wounded veterans. He is a caring person—which you don't get the sense of. But I don't want to criticize the candidates. That's for others to do.

Q: *Pat Buchanan supports most of your positions, from bashing free trade to campaign-finance reform. Why isn't he the Reform Party's favorite?*
A: He has said he would not leave the Republican Party. And there is the fundamental question on which this nation rests: Who are we as a people? We are from different parts of the world, we're different colors, different religions. We must all work as a team. If you hate people, I don't want your vote.

Q: *Steve Forbes is a businessman who's selling his entrepreneurial expertise to voters. Did he steal your act?*
A: No. People are sick of the two parties. So anybody that comes along that's an outsider gets initial attention, whether it's Powell or Forbes.

Q: *Hasn't Forbes's candidacy at least shown the potential of the flat tax?*
A: Flat tax, flat tax, flat tax—that's all you hear, right? "Growth, opportunity, and hope." Now then: Does it even work? Have we tested this thing?

Q: *American business has come in for a stinging critique during this campaign. What's the message here for CEOs?*
A: Heartbreaking angst exists across this country. And when politicians are trying to get votes, they play every tune they can get their hands on. CEOs understand that: "O. K., the politicians are going to have to punch us around a little bit to look like populists. But once they get in office, we own them—because we funded them."

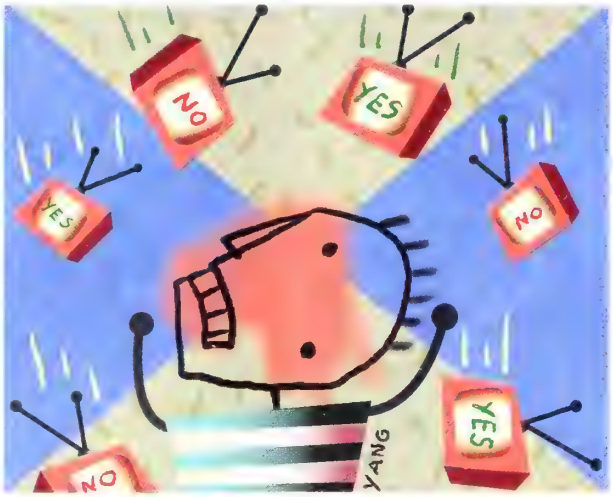
Q: *Can you see yourself making another Presidential run?*
A: What I would love to do is buy a series of 30-minute programs and explain the issues. [But] the networks will not sell me time. I don't have to do this, I could just be having fun, right? But I am probably the luckiest guy alive. I have lived the American Dream. And the thought that we would punish this country to the point where some kid can't get out and hustle and make his dreams come true—I can't live with that.

CALIFORNIA

PROPOSITION PAYDAY

California's ballot initiatives have become big business

In California, voter initiatives have created some strange bedfellows. Bill Zimmerman, a liberal who helped airlift supplies to protesters at Wounded Knee, S. D., in 1973 and was a key proponent of auto-insurance rollbacks, is teaming up with Ken Khachigian, an adviser to Ronald Reagan and a Richard Nixon speechwriter, to promote a trio of tort-reform initiatives.



ELECTION '96 Initiatives, which can cost up to $40 million apiece, are a boon for consultants, fundraisers, and TV stations

Golden State ballot measures are doing more than bringing would-be enemies together. Started in 1911 to promote grassroots democracy, the initiative process in California has become big business. Proponents and opponents of the tort-reform measures, for instance, will have spent some $17.5 million by the Mar. 26 primary to promote their views. The result: a bonanza for consultants, signature gatherers, and fundraisers. These days, "people go out and propose these initiatives so they can make money," says Joe Cerrell, a Los Angeles political consultant. "In 1996, it's become a straight business."

California will have five initiatives o its ballot this March, including the tor reform proposals, and it could have many as 18 in November. Everythin from campaign reform to educatio vouchers could be put to a vote th year at a likely cost of $2 million to $ million apiece for opponents and prop nents of the measures. For proponent $1 million or so of that goes to gatherin the hundreds of thousands of signatur required to get an initiative on the ba lot. For either side, 48% of a measure budget typically goes to TV. And wi some of the most expensive televisio markets in the country—a 30-secon spot during the hit show *E. R.* cos $70,000 in Los Angeles—California co sultants who pull in 10% to 17% on th costs of ads are reaping huge rewards

There are examples of fee abuse, i cluding a much-di cussed Orange Coun consulting team th collected up to 90% tax crusader Howar Jarvis' budget in th mid-1980s. Unfort nately for donors, how ever, the amount spe on a campaign seem to have little effect o its outcome. Amon the expensive loser the tobacco industry $18 million attempt 1994 to weaken ant smoking laws.

BIG BALLOTS. Initiativ can also have uninten ed results. Ruth Holto the executive direct of California Comm Cause, says proposa such as 1988's Propos tion 98, which guara tees schools 40% of ta revenues, have maj side effects—in Pro 98's case, less money f health care. "The public isn't thinkin about the broader picture," she say Still, special interests continue to spen because initiatives are a way around th state's long-gridlocked legislature.

The waves of initiatives can mak voting a chore. In 1990, it took Los A geles residents an average of 15 to minutes to vote on 45 state and local i itiatives and a full assortment of cand dates. Still, poll after poll shows tha Californians love their ballot measure "Democracy's not always a pretty pr cess," says Khachigian. But it can be beautiful business.

By Nanette Byrnes in Los Angel

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IPOs

HOW GLOWING IS LUCENT'S FUTURE?

It has to face a slowing market–without AT&T's deep pockets

The breakup of AT&T isn't going to be a quiet one. On Mar. 12, the company announced its first concrete step toward separating into three parts: The largest initial public offering in U.S. history. In early April, AT&T will offer 111 million shares of Lucent Technologies Inc., its equipment business, at $22 to $25 each.

If demand for the shares is high, AT&T has the option of selling another 16.65 million shares. The offering will represent just 17% of its equipment business—the rest will be spun off to AT&T shareholders. But with it, AT&T could raise up to $3.19 billion, some $800 million more than Sears Roebuck & Co. made when it spun off Allstate Corp. in June, 1993, the previous IPO record. AT&T plans to use the proceeds to pay down Lucent's debt.

EXCESS BAGGAGE. Analysts expect the shares to be snapped right up. That's largely because Lucent, with $21 billion in 1995 revenues, is the world's largest maker of telephone equipment in a booming telecom market. It has a huge installed base: Some 60% of all U.S. phone lines are connected to an AT&T switch, vs. 30% for the nearest competitor, Northern Telecom Ltd. Phone companies, newly unfettered by deregulation, plan to increase their equipment spending this year by some 14%, to $15.6 billion, estimates Wheat First Butcher Singer Inc.

Still, it could be a struggle for Lucent to remain No. 1. It will no longer have AT&T's guaranteed equipment purchases of about $2 billion a year. AT&T has promised to buy at least $3 billion worth of goods from Lucent—but only over the next three years, after which Lucent won't get preferential treatment. Lucent also must go through the wrenching process of cutting 22,000 jobs. And even though it keeps renowned Bell Laboratories, about 25% of the research facility's staff and resources will remain with AT&T. Competitors spy an opportunity. "They may have margin and profitability problems" as they go through the transition, says John A. Roth, Northern Telecom's chief operating officer. "Some products will have to be shelved and businesses jettisoned."

Granted, Lucent has formidable advantages. It starts life with $19.7 billion in assets, including $448 million in cash. Also, with its connection to long-distance giant AT&T severed, it has bright prospects for selling equipment to loc phone companies. And it signed on strong outsider as chairman—Henry Schacht, ex-CEO of Cummins Engine C and an AT&T board member. Richard McGinn, who ran the business sinc 1994, stays on as president.

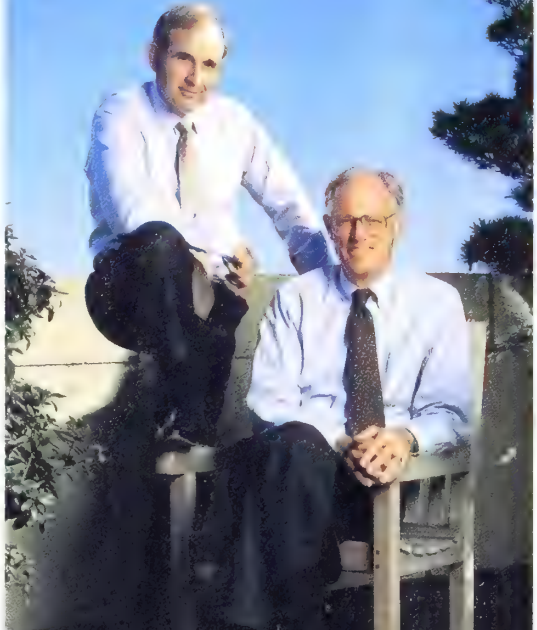
The major difficulty: Demand for bi public-network phone switches in th U.S., a market Lucent dominates, slowing as local carriers complete the decade-long upgrade to digital equip ment. Market researcher Northern Bus ness Information estimates that annu U.S. sales of public phone switches w drop from $6.68 billion in 1994 to $5.1 billion by 1999. The shortfall may b made up by booming sales of othe equipment, particularly for wireless an broadband networks, but those prod ucts carry lower profit margins.

HOMEBODY. Demand remains stron overseas, but Lucent isn't much of player. Just 25% of its business come from outside the U.S., far less than i major international rivals. In additio Lucent can no longer count on custome loyalty. Phone companies now ofte build escape clauses into their mult billion-dollar contracts. And customer aren't willing to absorb the costs, o risks, of new technology. As AT&T note in its February registration for Lucent IPO, "increasingly, as a result of the f nancial demands of major networ deployments, network operators ar looking to their sup pliers to arrange fo financing."

Still, Lucent know how to play the f nance card. In on recent deal, Sprint Corp. and its cable-T partners asked suppliers to finance bot the goods and services for a $3.6 billio nationwide wireless switching project an pay as much as 35% in damages if th system accidentally shuts down. Lucen appears to have won 60% of the con tract after Motorola Inc. dropped ou (Northern Telecom got the other 40% although the parties are still hagglin over details.

Lucent believes it will be even easie to show that kind of flexibility once it independent. McGinn is gleeful at win ning freedom from a communication division that was often the main com petitor of his biggest customers. "All o our customers see this as a very stron positive," McGinn says. Perhaps. But comes at the price of going it alone in treacherous market.

By Catherine Arnst in New York with William C. Symonds in Toronto



PROUD PAPAS: *President McGinn and Chairman Schacht*

LUCENT: A BEHEMOTH IS BORN

1995 REVENUES: $21.4 billion

NET LOSS: (–$853 million)*

ASSETS: $21.1 billion

DEBT: $4.01 billion

*Includes pretax restructuring charge of $2.8 billion

DATA: SEC

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COMMENTARY

By John Carey

HOW TO JUICE UP U.S. CONSUMER ELECTRONICS

Five years ago, Universal Instruments Corp. was in deep trouble. The Binghamton (N.Y.) company once had been a leading maker of assembly equipment for electronic products. Then the technology of attaching chips and components to circuit boards changed radically, and Universal lost out to Japanese rivals. So in 1991, it teamed up with Motorola Inc. and more than a dozen other manufacturers and suppliers to develop a new, highly accurate factory tool for assembling components into circuit boards. Adding the tool to its product lineup helped Universal make a comeback against stiff competition.

Now the U.S. electronics industry is hoping to duplicate Universal's success on a far grander scale. On Mar. 13, more than 45 companies, ranging from giants such as 3M, Texas Instruments, Motorola, and IBM to a host of tiny suppliers, announced a bold new "national electronics manufacturing initiative." The goal, explains Mauro J. Walker, Motorola's director of manufacturing: "To form the world's best supply chain," thus boosting the American electronics industry.

TIGHTLY FOCUSED. It's an intriguing idea that might just work. Developing an array of new factory tools should help the U.S. industry keep its lead over Asian rivals in such products as computers and cellular phones, as increased competition and technological advances drive down prices. "We used to hand off lower-cost products like VCRs and camcorders to Japan," explains Walker. The hope now: that the U.S. can eventually match or beat Japan at high-volume, low-cost manufacturing.

The new initiative resembles an electronics industry version of the semiconductor consortium Sematech. The plan, however, avoids many of the pitfalls of Sematech, which clearly helped the U.S. chip industry but at too great a cost to taxpayers. There's no expensive central research and development facility, for instance, or direct government subsidy.

The initiative has also embraced an imaginative approach that could keep it tightly focused. It started with the idea of building an imaginary product—a handheld $300-to-$600 personal-communications device capable of everything from making wireless phone calls to surfing the Net. In fact, similar products already were being contemplated—or were under way—in the labs of many of the partners. The companies then figured out the necessary advances needed to make such a device—from smaller, cheaper, more powerful batteries and components to the machines that would assemble them. Development efforts representing an investment of $80 million have already begun.

CHIP TOOLS: *Universal surged back thanks to an alliance*

The initiative also offers a lesson in the right ways for government to work with industry—although it didn't start out that way. The tale begins after Bill Clinton's election in 1992, when Lance Glasser, a technocrat at the Pentagon's Defense Advanced Research Projects Agency (DARPA), and other officials began searching for a splashy high-tech Presidential initiative. Glasser already had the idea that Uncle Sam should stimulate development of devices to hook into the Info Highway. But most companies saw that as a misguided attempt at industrial policy.

Then came a breakthrough, partly as a result of the November, 1994, Republican victory in congressional elections. With industrial policy suddenly under heavy assault, Glasser backed the government out of the project, and industry took over. That benefits both sides. With companies—instead of Uncle Sam—paying for the short-term development of new materials and tools, the feds can use their roughly $1 billion electronics R&D budget to fund longer-term research.

Of course, the initiative isn't a guaranteed success. Some critics doubt that U.S. suppliers will be able to leapfrog Asian companies. Universal Instruments may have a better machine now, notes Charles-Henri Mangin, an electronics assembly consultant based in Old Lyme (Conn.), "but the Japanese won't take long to have one just as good." And key companies such as Hewlett-Packard Co. and Intel Corp. are sitting on the sidelines.

But the new effort is getting deservedly high marks in many boardrooms. As Universal Instruments learned, cooperation beats getting battered.

The new consortium avoids costly central R&D facilities and government funding

Carey tracks science and technology from Washington.

Captain Steve Wand, Concorde pilot and enior Training Captain, at the controls of the Concorde simulator

"When you settle on a design that is successful, you want to keep it."

Steve Wand, Concorde Captain

As Captain Wand says these words, he is ting in the cockpit of a British Airways ncorde. Yet he is not talking about the air-ft. He is comparing his Rolex GMT-Master II h a Rolex Oyster worn by another pilot: Brian ubshaw, Chief British Test Pilot for the ncorde development program.

More than twenty-five years separate the two lex watches. And, while there have been nerous technical improvements over the years, the untutored eye the difference between them is minimal. The Rolex GMT-Master II and the Concorde are truly classic designs.

Says Captain Wand, "I don't think any of us ever become so complacent that we think we've had enough of the Concorde."

Trubshaw agrees, "There's a tremendous pride in flying the Concorde. It's a remarkable piece of engineering. Just like my Rolex."

Brian Trubshaw, test pilot for the Concorde program, wears the same Rolex GMT-Master today that he wore in 1969

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MEDICINE

A PREGNANT CLAUSE

Fertility clinics are offering controversial guarantees

For thousands of infertile couples, in vitro fertilization is the option of last resort. In the process, eggs are harvested from a woman's ovaries, joined with sperm in a petri dish, and the resulting embryo or embryos are planted in the uterus. The vast majority of attempts fail—draining patients' wallets in the process. Couples often spend $50,000 before they either conceive or give up. To complicate matters, recent scandals at fertility clinics have included charges that doctors are purloining embryos for use in other patients and secretly using their own sperm to fertilize patients' eggs.

Now, the infertile have yet another variable to consider: money-back guarantees. In exchange for up-front fees of as much as $16,500—nearly triple what many clinics charge—Pacific Fertility Center in San Francisco and Reproductive Health Associates Inc. (RHA) in St. Paul, Minn., are offering up to 90% refunds to medically qualified patients who don't sustain a pregnancy past 12 weeks.

IN VITRO: *Preparing an embryo at Pacific Fertility*

UNETHICAL? For some patients, the guarantees are more than financially reassuring. "It was a confidence-builder that they knew what they were doing," says a Los Angeles surgeon. He and his wife spent about $75,000 on IVF before trying Pacific, where she became pregnant with twins after one procedure.

The medical Establis ment, though, is up arms. The American Me ical Assn. says charging fee based on outcome unethical. Dr. John C. N son, an AMA trustee, wo ries that such plans c "create an incentive [f doctors] to do things th may not be medically a propriate," such as ove prescribing fertility dru that increase cancer ris

Dr. Geoffrey Sher, F cific's Executive Medic Director, says ethical co cerns about contingenc based fees shouldn't apply to infertil treatment. Unlike disease treatment, t success of fertility treatments is ea to assess. He contends there is no canc risk from the fertility drugs he uses a his patients' exposure to them is limite

Since January, RHA's business h doubled and Pacific's toll-free numb has received 2,000 calls. Plenty of co ples seem willing to risk paying mo for success—and less for failure.

By Joan O'C. Hamilt in San Francis

ADVERTISING

CALM DOWN AND TAKE TWO ASPIRIN

Name-calling by drugmakers has networks playing censor

When it comes to attack ads, Presidential campaigners have nothing on drugmakers. In September, Tylenol maker Johnson & Johnson began a television campaign warning that Advil use can interfere with blood-pressure medication. Advil's manufacturer, American Home Products Corp., hit back in February with a spot warning that heavy drinkers risk liver damage from Tylenol.

The networks have had to act as intermediaries in the fight: They yanked the anti-Advil ad early this year, and then began pulling the anti-Tylenol ad on Mar. 8. Capital Cities/ABC Inc. went so far as to ban all competitive safety claims in ads for health products. A spokeswoman for the company says such ads "can be misinterpreted by the public as overplaying the health concerns involved." NBC is also reviewing its policy on comparative safety ads.

The companies are unapologetic. A spokeswoman for American Home's Whitehall-Robins division insists that Tylenol's alcohol-interaction problems "are an important health issue." J&J says that "it's clear that for pain-relief, doctors recommend Tylenol over the nonsteroidal anti-inflammatory drugs." Doctors charge that the ads deliver far more heat than light. "They are overblown," says Dr. Fred D. Sh tell, director of the New England Ce ter for Headache in Stamford, Con and head of the American Council f Headache Education.

PILL WARS

Liver damage? Adverse reactions to blood-pressure medicine and alcohol? The warnings from American Home and Johnson & Johnson about each other's painkillers "are overblown," says one doctor

LONG WAY TO GO. The truth: Tylen Advil, and many other painkillers ge erally won't hurt users in good heal who take the medicines infrequent Even so, heavy use of either Advil Tylenol by virtually anyone is risky. doses of over 40 pills a day, the aceta inophen in Tylenol has been linked liver problems. And Advil's ibuprofen in a class of drugs that has been link to elevated blood pressure a gastric problems. Dr. San A. Furey, a Whitehall-Robi assistant vice-president, insis no data shows gastrointes nal or blood pressure pro lems with Advil. A J&J spok man agrees that high doses alcohol and Tylenol can cau liver problems.

In newspaper ads, J warns that overuse of a painkiller and alcohol w cause trouble. Advil has y to respond in kind. Like t 1996 campaign, this battle h a long way to go.

By Joseph Web in Philadelph

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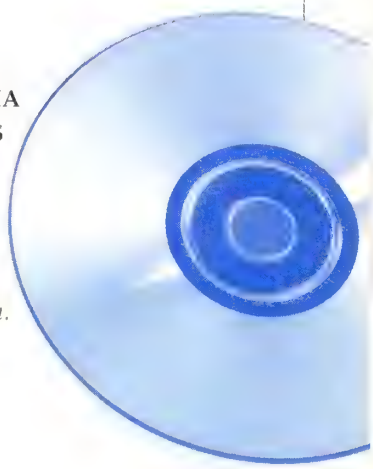

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ROCKY JOURNEY OR TRAVELERS

THIS UNDERWRITER JUMPING e gun? Travelers/Aetna operty Casualty, the comny that Travelers Group o Sanford Weill hopes to eate out of the propertyualty operations of Aetna d Travelers, filed with the curities & Exchange Comssion for an $885 million tial public offering. But t may be easier said than e: The $4 billion Travelers rchase of Aetna is hitting adblocks. Several unions e fighting it because Conticut will lose 1,500 jobs, d the state could hold up e sale. But Wall Street nks Travelers is making a art move by buying Aetna d spinning off part of it. helps [Travelers] establish a value for the entity and gives them access to the market, without diluting Travelers stock," says Gloria Vogel, a Ladenburg, Thalmann analyst.

KNIGHT-RIDDER MAY RID ITSELF OF CABLE

IT'S BACK TO BASICS AGAIN AT Knight-Ridder, which acknowledged on Mar. 11 that it is in talks to sell its 50% stake in TKR Cable I. The likely buyer: Tele-Communications Inc., Knight-Ridder's partner in TKR since 1981. Knight-Ridder's share of TKR should fetch around $800 million, but its debt load means that Knight-Ridder would see only about half that in cash. Cable "was a success [for Knight-Ridder], considering what they're selling it for," says Wheat First Butcher Singer media analyst Kenneth T. Berents. Success or no, TKR doesn't fit with Knight-Ridder's print-oriented plans.

GOOD NEWS, BAD NEWS FOR BUFFETT

YOU WIN SOME, YOU LOSE some. Warren E. Buffett's Berkshire Hathaway reported a 1% decline in operating income for 1995. Investors say high insurance claims may have accounted for the decline. Buffett will likely explain the drop in a Mar. 18 letter to shareholders. Meanwhile, Berkshire's net income rose 46%, to $725 million, on higher investment gains and there could be more. Buffett won permission on Mar. 13 to buy up to 17% of American Express.

WATT WON'T DO THE TIME

MORE LEGAL FALLOUT FROM the Reagan Administration: After a probe into influence peddling, a federal judge on Mar. 12 spared former Interior Secretary James Watt a prison term but ordered him to pay a $5,000 fine and sentenced him to five years' probation and 500 hours of community service. Watt had been charged with 18 counts of perjury and making false statements to a grand jury. The indictment said Watt was paid $500,000 for contacting political appointees at Housing & Urban Development after he had left government. Watt pleaded guilty to a single misdemeanor.

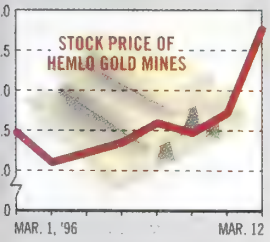
TITAN WHEEL'S STEEL DEAL

FILE THIS UNDER "WHERE are they now?": Erstwhile Presidential candidate Maurice Taylor, CEO of Titan Wheel International, is training his sights on a bankrupt steel company. Taylor is considering buying McLouth Steel, which filed for Chapter 11 last fall. McLouth has plenty of problems, including a towering $380 million in debt. And it's losing money in a strong steel market. But McLouth could supply Titan with steel, and Taylor, who wouldn't comment, is surely counting on a bargain-basement price. The millionaire is likely to face competition, though. Ispat International, a unit of an Indian steelmaker, is said to be interested in McLouth too.

CLOSING BELL

GOLD RUSH

guring bigger is better in the old business, Toronto-based emlo Gold Mines on Mar. 11 K.'d a $1.5 billion merger ith Houston's Battle Mountin Gold. Fans of Yellowstone ational Park won't gain: emlo has been involved in ans to develop a new mine .5 miles outside the park. The ew company, to be called attle Mountain Gold, plans to eep pressing for a regulatory od. Hemlo figures the new ompany will have more financial flexibility and clout. Investors agreed, pushing the stock p $1 on Mar. 12, to $13.75.



DATA: BLOOMBERG FINANCIAL MARKETS

HEADLINER: BERNARD FOX

MILLSTONES AROUND HIS NECK

Nuclear power is burning Bernard Fox. After six months as head of New England's largest electric utility—Northeast Utilities, in Berlin, Conn.—Fox, 54, has two Connecticut plants down, two under close watch by the Nuclear Regulatory Commission, and layoffs looming.

Fox says his "new, stronger game plan" will help NU solve "short-term problems." But last November's shutdown of the Millstone I plant is now extended into summer because of safety concerns. Millstone II went down on Feb. 20 because it didn't hew to licensing requirements. And the NRC said on Mar. 8 that by Apr. 7 it may shutter two other plants if they fail to resolve glitches in their emergency safety systems. Meantime, NU may trim its nuke workforce of 3,000 by up to one-third over the next five years. This is serious in New England, where 35% of electric power is nuclear. Replacement power for the two closed plants costs $13 million a month, and Connecticut regulators may lay the bill on consumers. Fox may be wishing his time at NU's helm were off to a brighter start.

By Resa King

ET CETERA . . .

- Disney is delaying a sale of $2 billion in bonds because of high interest rates.
- W. R. Grace is selling its Dearborn water treatment unit to Betz Laboratories.
- Publix Supermarkets employees' sex-discrimination suit won class-action status.
- Snap, crackle, profit: General Mills' earnings rose 13% on stronger cereal sales.

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DITED BY OWEN ULLMANN

VORRIED WHITE MEN MAY BE THE GOP'S ACE IN THE HOLE

For more than a year, affirmative action has been in the crosshairs of conservative activists in California. But now the state's Mar. 26 Presidential primary is shifting e controversy to the national battlefield.

The Golden State will hold a referendum in November whether to end state-run race and gender preference ograms, and the issue is sure to spark debate among White ouse hopefuls. With polls showing 2-to-1 support for repeal, e presumptive Republican nominee, Senator Bob Dole (R-n.), backs the so-called California Civil Rights Initiative. at could give him a potent weapon against President Clin- n as they vie for California's 54 elec- al votes. Even more is at stake, since s grassroots campaign may spread ross the country—and put Big Busi- ss, a longtime backer of affirmative ion, on the spot.

GST. For now, Clinton leads in Cali- nia. But Dole will remind voters that inton is against the CCRI. And Pat chanan—more opposed to preferences an Dole—is rallying around the CCRI, claring it "would end all state fa- ritism towards Hispanics, blacks, men, and Asians." Meanwhile, the President reads the lls, too, so he's playing down his defense of affirmative ion during trips to the state.

BUCHANAN: *Bashing affirmative action*

Opposition to preferences has risen in this time of economic gst, as white males worry about losing jobs and business to men and minorities. Consider Donald C. Ware, president of ntana Steel Inc. in Rancho Cucamonga, Calif. He blames cial preferences for cutting his government construction ntracts in half since 1979. "It's sick," he gripes. "Everybody tired of someone getting a job because of color."

Republicans are exploiting such frustration, charge CCRI op- nents. Says Kathy Spillar, national coordinator for the eminist Majority: "The GOP wants to use it as a racial wedge issue like Willie Horton." Spillar hopes the ploy backfires by alienating women. But Republicans, citing polls showing opposition to preferences, claim the winning hand.

Caught in the middle, Corporate America is soft-pedaling its support of affirmative action. In a rare alliance with Democrats, big U. S. companies have long favored the policy. And the California Business Roundtable, including BankAmerica, Chevron, and Southern California Edison Co., endorsed affirmative action last August. But lately, business is refraining from taking sides on the CCRI. "Companies are afraid to offend strategically placed politicians," admits Ronald Knox, vice-president for diversity at Kaiser Foundation Health Plan Inc. in Oakland.

Instead, many corporations in the state will soon circulate pro-affirmative-action statements to customers, suppliers, and employees, arguing that the U. S. market and labor pool is increasingly diverse—so a company's workforce must reflect that diversity to succeed.

That message isn't getting through. Conservatives in eight other states, including Florida and Illinois, are mounting similar ballot measures. And bills to gut affirmative action are pending in 38 states. In Congress, Dole introduced a bill in 1995 to end federal affirmative action, but the legislation has since languished.

Clinton says he's fixing affirmative action without ending it. To comply with last June's Supreme Court decision that curbs federal preference programs, the White House will soon unveil a plan requiring agencies to prove discrimination before giving special contracts to minorities and women.

That's hardly enough to stem the populist tide against affirmative action. So long as Clinton and his corporate allies seem unwilling to wage a full-scale fight, Dole has a winning issue to run with—in California, and possibly far beyond.

By Catherine Yang

CAPITAL WRAPUP

CHANGING WITH THE TIMES

▸ The American Association of Re- ired Persons has been Washington's nost unwavering defender of Social Security and Medicare. But the AARP s quietly exploring ways to overhaul he programs. Why? Baby boomers re turning 50—the minimum age for AARP membership—and polls show nany fear that Social Security and Medicare in their current form will be ankrupt when they retire. A top AARP official is taking a one-year sab- atical to study reform ideas. The AARP's new open mind may embolden politicians to push harder for major changes, such as making Social Security participation partly optional.

LEAVE IT TO LEVITT?

▸ Why did Representative Jack Fields (R-Tex.), chairman of a House finance panel, do an about-face on his securities deregulation bill? Some credit goes to Securities & Exchange Commission Chairman Arthur Levitt Jr. He got Fields to drop controversial provisions, such as a curb on state regulators' antifraud powers.

KENNEDY'S LABORING STAFF

▸ Congress agreed last year to abide by U. S. employment laws, but lawmakers can still exempt staffers from benefits such as overtime pay. So who's using the loophole liberally? Senator Edward M. Kennedy (D-Mass.), ranking Democrat on the Labor & Human Resources Committee. He has an 88% rating from the AFL-CIO for his labor record but exempted 92% of the panel's Democratic staff. Chair Nancy L. Kassebaum (R-Kan.) exempted just 69% of the GOP staff.

CONFLICT

TAIWAN UNDER SEIGE

Even after the vote, Beijing will bully Taipei and punish its economy

As day broke on Mar. 13, China fired its fourth M-class missile in less than a week into the waters near the coast of Taiwan. Beijing's immediate goal is clear. It is to discourage millions of anxious Taiwanese from voting for candidates in the Mar. 23 presidential elections who favor Taiwan's independence from China. But heavy-handed Chinese actions clearly aren't working. On the streets of Taiwan, anger and resentment are hardening, making the idea of unifying with China even more remote. "This makes me want independence all the more," says Kenny Lee, a Taipei resident.

China's approach is also rippling across the economies of East Asia. Although no investment is running off, there's a caution light flashing about how much new money to put in. The irony is that Taiwan's election ought to be a crowning moment for an Asian state's transition from dictatorship to democracy. But worried that Taiwanese President Lee Teng-hui will further push away reunification, Beijing has launched the most provocative military campaign in decades.

The Taiwanese economy has been the victim of China's campaign. In the face of Beijing's announcement that it would conduct live-ammunition exercises off the coast, shipping and airline companies scrambled to preserve Taiwan's transportation contacts with the world. The island's mighty foreign currency reserves are shrinking. The stock market has been falling since Lee's visit to the U.S. last year first infuriated China. "Taiwan," says H. H. Michael Hsiao, sociologist at Academia Sinica in Taipei, "is a society under siege."

The news may just get worse for Taiwan. While the U.S. decision to send two aircraft carriers and about a dozen other ships to the region may lead Beijing to take a step back from the brink after Lee's likely election, some analysts suspect China has written Lee off as a negotiating partner. Instead, Beijing's leaders may be hell-bent on a long-term policy to create upheaval within Taiwan, bringing the economy to near-collapse.

FRIENDLY HINTS. That might confront Washington with the problem of how to maintain significant military forces in the Taiwan theater for the long haul. At first, the Americans hoped that missile tests would end quickly and there would be little need for a military response. But China's exercises, including amphibious landings and naval maneuvers, raised the ante. President Clinton sent in the ships to show the depth of American concern. The move won bipartisan approval on Capitol Hill, including support from Clinton's likely rival, Senator Bob Dole.

The hard line from Beijing will challenge Taiwan's ability to maintain a diplomatic balancing act. Lee has encouraged greater contact with China, including the first talks between the two sides since 1949. At the same time, Lee has pursued his own agenda to win votes at home, launching a drive to win greater international recognition, including membership in the U.N. After the election, Taiwanese officials hint, he'll make some

HARD LINE China's Jiang may be bent on creating havoc on Taiwan

THE TEAM Presidential candidate Lee and his running mate, Lien Chan

nciliatory gestures to Beijing. "The w government will further open the or," says Economics Minister Chiang ng-kun. But few expect a return to e peaceful days of the early 1990s, hen China and Taiwan seemed to be oving closer together.

China's economic gains are also at risk. iwanese have invested an estimated 5 billion in China, and two-way trade nearly $21 billion last year. But since nsions began to flare last summer, new Taiwanese investments have dropped by 48%, and 25 companies have withdrawn investment applications worth $10 million for China. "It's a lose-lose situation," says William Reinfeld, the Taipei-based director for Greater China at Andersen Consulting. "This hurts China as much as Taiwan." China could also run the risk of losing fresh Western investment.

The ramifications for the region are equally ominous. Countries such as Indonesia and the Philippines, which have their own territorial disputes with China, take little comfort in watching Beijing settle its differences in this fashion. China's military pressure also creates a serious challenge for Japan. Prime Minister Ryutaro Hashimoto has kept his comments to a minimum, but members of his party are calling for a freeze on aid and loans. China's actions also undercut growing Japanese opposition to U.S. military bases in Japan.

For Taiwan, the crisis is a painful reminder of its economic vulnerability. Foreign-currency reserves, the largest in the world last summer, have dropped 13% as the currency has weakened and nervous Taiwanese have moved billions overseas. With some 20% of Taiwan's exports going to China, the health of the economy is now in doubt. In the short term, the outlook isn't good for Formosa Plastics Group, one of Taiwan's largest private-sector companies. The petrochemical giant looks to China for 40% of its sales. Some 10% of the group's total revenues are at risk, says Benny Y. Chang, the company's corporate financial officer. "Some customers in mainland China aren't placing orders now as they would have in the past," he says.

If China's economic war on Taiwan continues, the island's high-tech companies may no longer be able to smoothly obtain the imported components they need to survive. Taiwan is the world's third-largest producer of information-technology products, behind only the U.S. and Japan. The island's companies produce 65% of all motherboards for personal computers and more than 60% of all computer monitors.

HEALTHY GROWTH. The crisis with China is taking an especially heavy toll on Taiwan's financial sector. The stock market is down 17% since last June, when China first started making threatening noises following Lee's visit to the U.S. As a result, the government has created a $7.2 billion stabilization fund to keep the bourse from collapsing.

Taiwan still has many advantages. Growth is moving along at a healthy 6% clip. Education standards in Taiwan are high, enabling the island to produce a skilled workforce. Taiwan continues to climb the technological ladder, with high-tech goods accounting for 25% of total exports. And many high-tech companies, including Acer Inc. and Taiwan Semiconductor Manufacturing Co., are proceeding with their investments—even in China.

Lee has said his priority after the election will be to calm cross-strait tensions. But Taiwan and China remain far apart on many issues. With the island enjoying unprecedented prosperity and democracy, Taiwan has become a pluralistic society with its own aspirations. Taiwan boasts a per capita income of $13,000—compared with a mere $450 in China. A new Taiwanese identity has taken shape, defined mainly by native-born Taiwanese, who make up 85% of the population. Until the late 1980s, when Lee became the first native-born president, the island was ruled by mainlanders who fled with Chiang Kai-shek in 1949. Beijing's leaders doubt that native Taiwanese have the same yearning for reunification that the mainlanders had. Many residents of Taiwan agree. "China is a real foreign country," says Hsiao. "I don't mind going there, but it is not my home."

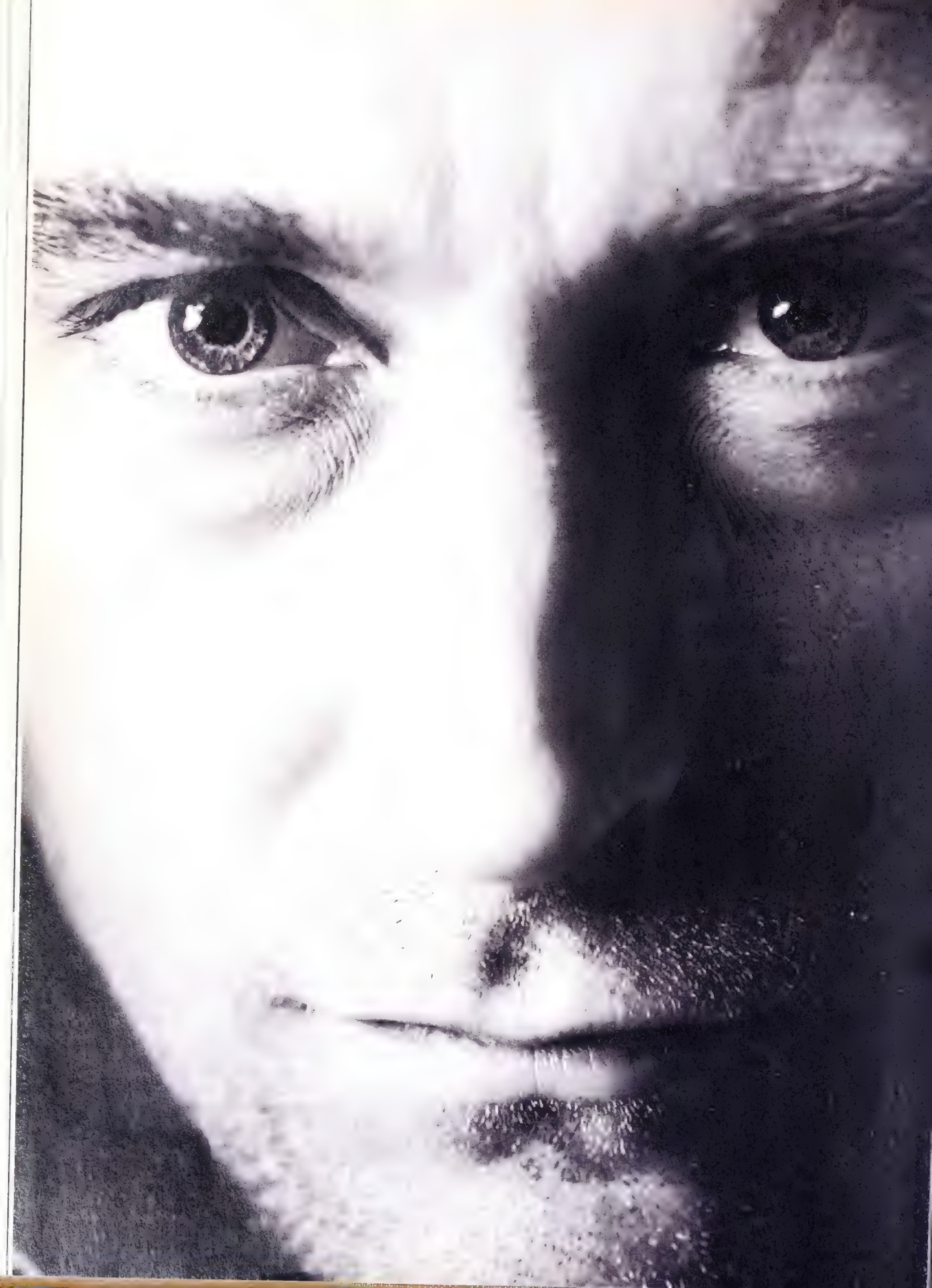
Responding to such sentiments, Lee, 73, wants his legacy to be a Taiwan that

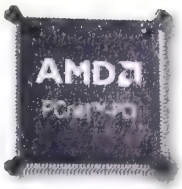
AT DOES CHINA WANT?

h its provocative campaign of mili- ercises, Beijing hopes to wring a r of concessions from the Taiwanese:

- nidate Taiwanese voters into vot- ainst President Lee Teng-hui
- sure Lee into agreeing to a ble for reunification with China
- e Taipei to abandon its efforts to e U.N. and WTO
- e Taipei to drop its efforts to win ition from nations around the world

DATA: BUSINESS WEEK





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is democratic, prosperous, and recognized in the global community through membership in the U. N. and World Trade Organization. Reunification has never been a top priority for him, though he publicly hasn't veered from the ruling Kuomintang (KMT) line on reunification. Some critics charge that he has been too focused on trying to breathe life into the creaking KMT, a party that is losing power with every election. In December legislative polls, the corruption-tainted KMT eked out only 85 seats of 164, barely a majority. If he and his running mate Lien Chan win with less than half of the vote, Lee will not have the mandate needed to push bills through the legislature. The KMT will have to form coalitions with opposition groups to avoid political gridlock. Making concessions to China then may be even more difficult.

If anything, Beijing is now doing more to alienate the Taiwanese than to bring them into the fold. "The military exercises just push people away from China," says Antonio Chiang, publisher of the respected weekly *The Journalist*. Similar sentiment is building in the U. S., as China steps up tensions with Taiwan.

PULL THE PLUG? The U. S. clearly has compelling strategic and economic imperatives for maintaining stable relations with China—but it also has crucial economic and political reasons to support Taiwan. The Clinton Administration is already upset with Beijing for its dismal human-rights record, its sales of nuclear and chemical weapons technology to Pakistan and Iran, and its poor progress in protecting intellectual property rights. In the coming weeks, the numerous congressional critics of China will probably wage a vocal fight to pull the plug on Beijing's most-favored-nation trade status, which comes up for renewal in June.

Administration officials hope that after the Mar. 23 vote, China's campaign will end. Beijing has privately indicated to Washington that it does not intend to invade Taiwan. But many experts believe that the U. S. will have to work aggressively to keep the peace for the foreseeable future.

The immediate goal for the Americans, the Taiwanese, and other Asians is to get relations with China back on track. In the best of circumstances, that would be a difficult task. When aircraft carriers are on the move and missiles are flying, it's even more daunting. And if a stray missile lands in the wrong place, it may become impossible.

By Joyce Barnathan, with Margaret Dawson, in Taipei, with Mark L. Clifford in Hong Kong, Dexter Roberts in Beijing, and Stan Crock in Washington

WASHINGTON WILL BE JUGGLING THIS HOT POTATO FOR YEARS

The Clinton Administration and China-watchers across the U. S. political spectrum agree that China isn't about to invade Taiwan and that Taiwan won't provoke the mainland by declaring outright independence. They concur that tensions will ease somewhat after the Mar. 23 Taiwan election.

The problem is that they also agree that Beijing under President Jiang Zemin and Taipei under President Lee Teng-hui hold irreconcilable views of their future relationship. That means frictions aren't likely to subside with the balloting. The key policy debate in Washington suddenly is what deeper role the U. S. must play over the long haul.

CALMER DAYS Jiang and Clinton can no longer expect the Taiwan issue to fade away

Shattered is the blithe assumption on which China policy has been based for two decades. That was that the Taiwan issue would simply fade away. Washington would quietly move closer to Beijing, forsaking formal recognition of the autocratic Nationalists in Taipei. As the U. S. pulled out troops and promised to cut arms sales to the island nation, the betting was this would put enough pressure on Taiwan to come to terms with China, the new U. S. darling.

TOUGH WALK. Instead, China has become the villain in some U. S. eyes, recalcitrant on human-rights issues, a trade rogue, and a bully. Meanwhile, Taiwan has transformed itself into a thriving democracy. "Walking away from Taiwan is much more difficult now that it has elected officials from dog catcher to President," notes Carl W. Ford Jr., a former Asia hand at the Central Intelligence Agency.

The consensus is that the U. S. can't play the role of a mediator as it has in the Middle East. Instead, it will have to exert pressure on both sides to modify their most extreme desires. The trick will be finding a balanced, systematic approach. "If we go after China and don't go after Taiwan, or vice versa, we don't do ourselves any good at all," says Ronald N. Montaperto, a China expert at the National Defense University.

Leaning on Taiwan to scale back its demands for international recognition is relatively easy. China is the tougher problem. But the U. S. may be able to turn the current flare-up to its advantage if it can galvanize world opinion—and business sentiment. China's heavy-handed demands for technology and manufacturing transfers could run into much greater resistance if its military tactics prove destabilizing. "China is not so profitable that countries will calculate only on the basis of market interest," says Douglas H. Paal, president of the Asia Pacific Policy Center. "China may be on a more dangerous path than it is aware."

So the goal will be to find the right mix of military, economic, and diplomatic moves that send clear signals to Beijing and Taipei, without getting caught in the middle of a decades-old confrontation. Sustaining that difficult balancing act is going to require a lot more effort—and a lot more years—than anyone in Washington ever imagined.

By Stan Crock in Washington

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GERMANY

THE LOPEZ CASE: HAS GERMANY BEEN DRAGGING ITS FEET?

GM hopes a civil suit will embarrass prosecutors into action

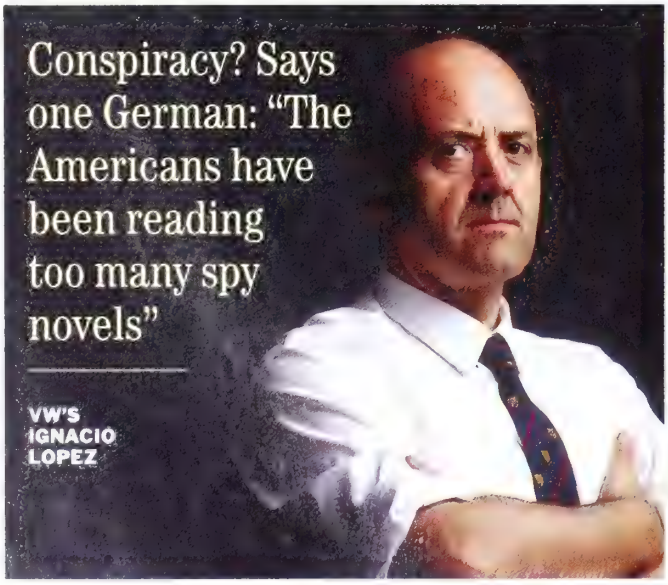
To Louis R. Hughes, it was a clear warning to back off. Hughes, president of General Motors' international operations, says that in June, 1993, the retired CEO of a prominent German industrial company met with him briefly in a city in the German state of Hesse. The man carried a simple message from Ferdinand Piëch, the Volkswagen chairman who had just hired away GM's ace cost-cutter, José Ignacio López de Arriortúa. As Hughes recalls, Piëch's emissary cautioned that if the world's biggest carmaker pursued charges that López and VW stole classified GM documents and trade secrets, Germany would protect VW.

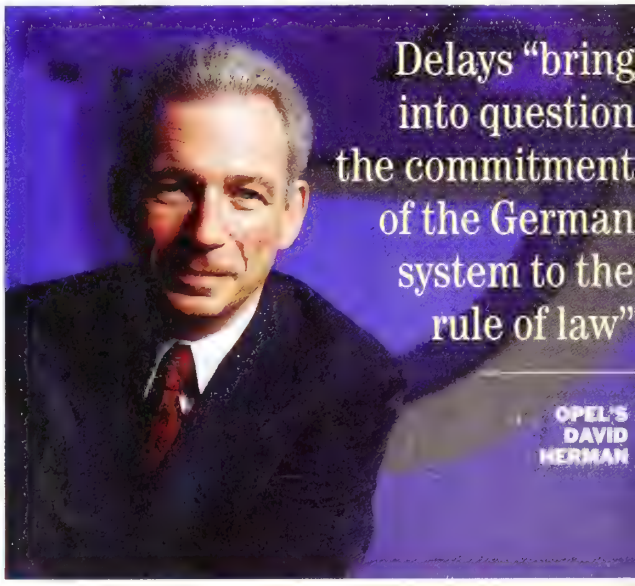
The idea of a national conspiracy to shield VW from prosecution may seem far-fetched. But GM officials are increasingly suspicious that meddling politicians and bureaucratic foot-dragging has stalled Germany's wheels of justice. So on Mar. 7, frustrated with the lack of progress in a three-year-old criminal probe, GM filed a civil lawsuit against López, Piëch, and VW in U.S. District Court in Detroit. The goal is to wring some sort of damages out of VW for allegedly stealing GM secrets and prod German prosecutors back into action. The delays "bring into question the commitment of the German system to the rule of law," fumes David J. Herman, president of Adam Opel, GM's German subsidiary. A VW spokesman says the suit is unfounded and that GM's claims are "baseless."

GM's 100-page complaint details some pretty hot stuff. The document describes how López, several close associates, and VW officials allegedly stole reams of information about confidential plans f new products, a radically different fa tory design, and procedures for buyi parts. The civil suit was approved at February meeting in Detroit involvi Hughes, GM chief John F. Smith, a other executives.

The suit shows GM's iron determin tion to get its day in court. While t company claims it has mountains of co crete proof against López, GM has ma no formal complaint about possible fo dragging by the Germans. Instead, officials are content to air their sus cions in the hopes of adding pressure German prosecutors.

PLODDING REVIEW. That strategy mak sense for GM, since evidence of politic interference is highly circumstanti Take the case of politician and VW rector Gerhard Schröder, one of Lóp most outspoken defenders and a bê noire for GM executives. As minist president of the German state of Low Saxony, which owns 20% of VW's co mon stock, Schröder wields plenty power. On May 24, 1993, he said G pursuit of López was "an attack on G many as an industrial location" and effort "to ruin VW." Inflammatory, y But such outbursts have no impact





GM PUTS THE HEAT ON LOPEZ

MAR. 15, 1993 López resigns as purchasing chief for General Motors and flies to Germany, joining VW the next day as a managing director.

APR. 30, 1993 GM files a criminal complaint in Germany charging López with stealing its plans.

AUG. 26, 1993 Police search VW's Wolfsburg headquarters. They seize computers and reams of documents.

AUG. 12, 1994 German government agrees to cooperate with a U.S. Justice Dept. criminal investigation of López.

JAN. 12, 1996 Frankfurt Attorney General's office says the investigation is complete; vows decision by summer on whether to indict López.

MAR. 7, 1996 GM files a civil suit against VW, López, and numerous other VW executives alleging they stole secret GM documents and seeking damages that experts say might reach $1 billion.

DATA: BUSINESS WEEK, GENERAL MOTORS CORP.

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investigators, says Hans-Hermann Eckert, senior public prosecutor in the Frankfurt Attorney General's office.

Likewise, at a press conference a year later, Schröder questioned the impartiality of the Darmstadt prosecutor's office, which was handling the López investigation. In response, the case was reviewed by Senior Public Prosecutor Thomas Seifert, who painstakingly retraced each step of the year-old inquiry. Opel charges this process caused a delay of four months in the investigation. "This was a brazen attempt by a national political figure who has a personal interest in the outcome to influence the [legal] process," says Herman. Eckert denies such influence. Adds a Schröder spokesman: "They've been reading too many spy novels."

POLITICAL MEDDLING? Delays have been frequent, though. In February, 1995, Eckert told a news service that the probe would be concluded in three months. Then, in late May and early June, he said the decision had been pushed back to the fall. In August, he amended that to the end of the year. On Jan. 12, Eckert said a decision to indict or not will be reached within weeks, but won't be made public until the summer. As for the delays, Eckert says complex cases often take longer than expected.

The German delays may also be slowing a U.S. criminal probe. On Apr. 25, 1994, the U.S. Justice Dept. asked its German counterpart to share the results of German investigations into the López affair. On Aug. 12, the German Justice Ministry approved the request and passed it to officials in Hesse handling the investigation. In October, the authorities asked U.S. officials to clarify their request for evidence. Then on Feb. 21, López' lawyers filed an objection, and until a Frankfurt court rules on it, the issue is stalled. Justice officials in Bonn say such delays are normal.

German legal experts say the case's complexity may be partly responsible for the delays. But they also say the structure of the German legal system makes political meddling possible. State justice ministers, who are political appointees, can give orders to state district attorneys. Such directives, though, are unusual, says Klaus Tiedemann, a law professor at the University of Freiburg.

Piëch desperately wants the whole legal mess to go away. Last month, he told the monthly *Manager Magazin*: "We have closed this matter." As long as GM keeps pressing its case, he's at least guilty of wishful thinking.

By David Woodruff in Rüsselsheim, with Kathleen Kerwin in Detroit

JAPAN

A BAILOUT RAISES EYEBROWS —AND OZAWA'S POPULARITY

He says Hashimoto's housing loan rescue is a taxpayer rip-off

IN THE LIMELIGHT

Ozawa, head of the New Frontier Party, in the Diet as picketers outside challenge the $6.5 billion plan

Japan's political arena is turning ever more bizarre. In the latest twist, opposition Diet members staged a marathon sit-in, blocking the doors to the Diet's budget committee room. By barring Prime Minister Ryutaro Hashimoto, the protesters grabbed the lead spot on the evening television news.

The spectacle of the Prime Minister being thwarted by a human blockade was orchestrated by Ichiro Ozawa, the wily leader of the opposition New Frontier Party. Ozawa is expected to be Hashimoto's challenger in the next general election to be held either this year or next. Hashimoto has handed Ozawa a marvelous gift by backing a plan to spend $6.5 billion to bail out mob-linked companies that borrowed from the *jusen*, or housing-loan corporations. Because the *jusen* had been big financiers of Hashimoto's Liberal Democratic Party, it has been easy for Ozawa to portray the bailout as an outrageous rip-off of the taxpayers.

The campaign against the bailout is doing wonders for Ozawa's political fo tunes. Long a behind-the-scenes oper tor, he is now a regular on Sunda morning talk shows and recently led protest march through central Toky The strategy is inflicting damage the LDP. Not long ago, Hashimoto w one of Japan's most popular politician but his approval rating has plummete from 61% to 36% in the two montl since taking office. The LDP has bee badly split by recriminations over tl bailout scheme.

CUT A DEAL? There are serious issu behind all the political *kabuki*, of cours The contretemps raises questions abo whether it is politically possible to spe public money to shore up the shak Japanese banking system, which struggling under an estimated $800 b lion in bad debts. In addition, the stan off is jeopardizing Japan's fragile reco ery by delaying passage of the fisc 1996 budget, which includes a big publi works spending package. Not surprisin ly, the Nikkei index has gone back in retreat, and the premiu that Tokyo bankers mu pay to borrow dollars world markets is onc again on the rise.

With such pressur building, Ozawa may we be calculating that it is no time to cut a deal. One po sibility might be to let tl bailout go forward if Hashimoto takes big political hit and turns over his clos ally, LDP Secretary General Koichi Kat for an investigation. Kato denies alleg tions that he took $100,000 from *jusen*-linked company, but a former a sociate says he saw him accept the mo ey. There are also rumors that Ozawa offering to back off in exchange for a early parliamentary election date whe he could cash in on the scandal.

Hashimoto doesn't seem to have an good options. Almost anything he doe is likely to cost him prestige. Still, n one is counting him out at this poin He has a lot more brains and politic stature than some of his recent prede cessors, but so far, those qualitie haven't helped him.

By Brian Bremner in Toky

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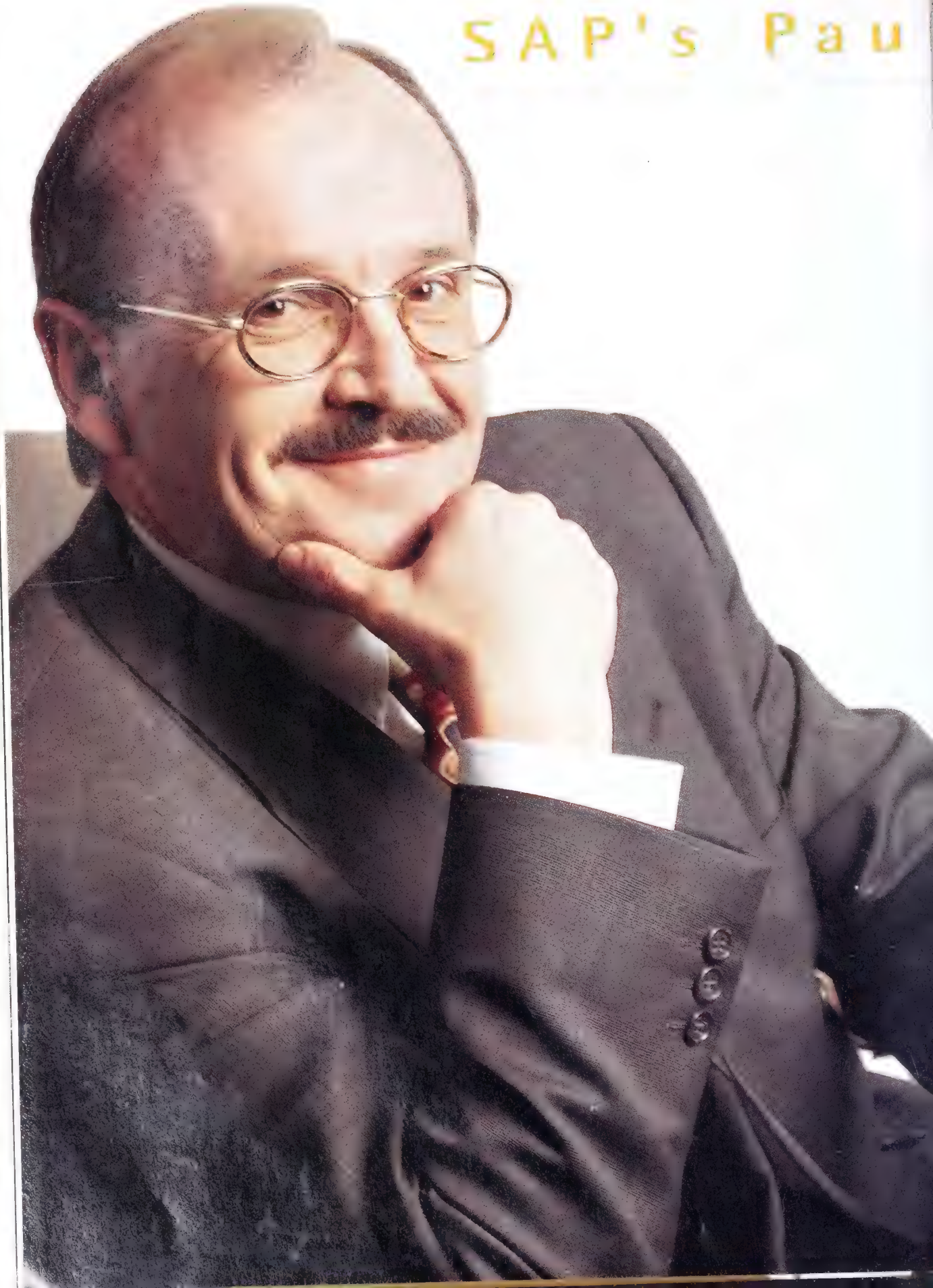
SAP's Pau



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Paul Wahl

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EDITED BY STANLEY REED

NOT SO QUIET ON GERMANY'S EASTERN FRONT

German politicians usually try to avoid making foreign policy waves. But when Chancellor Helmut Kohl visited his old friend Boris Yeltsin in Moscow last month, he boldly revamped Western policy on Central Europe. Kohl told the Russian President that inclusion of such countries as Poland, the Czech Republic, and Hungary in NATO "needs to be postponed for a long time." The remark pleased Yeltsin but came as a shock to Central Europe and the U.S., which has been pushing to extend the NATO umbrella eastward.

Of course, Kohl was trying mainly to boost the tottering Yeltsin's chances in Russia's June presidential elections. But the chancellor's controversial pronouncement also underscored Germany's increasing willingness to play a heavyweight role to its east, where it finds itself inexorably drawn. The major security threats lie in that direction—mostly in Russia. So do the big opportunities—in Central Europe. "These are new responsibilities that the Germans have taken up at last," observes Alexander Rahr, Russia expert at the German Society for Foreign Policy in Bonn. "Finally, the political elite is realizing that Russia is in trouble."

HERE'S TO STABILITY: *Kohl and Yeltsin*

The last thing the Germans want is for Yeltsin to be replaced by Communist leader Gennady Zyuganov or one of the other dubious figures stalking the presidency. An unstable Russia would be a nightmare for Germany. Among other things, it would jeopardize Germany's budding sphere of influence in Central Europe.

EASY CREDIT. As infrastructure improves, a closely knit commercial region is emerging in the heart of Europe with Berlin as its future capital. German companies view this area as one with enormous potential both as a manufacturing zone and as a market. They are much more skeptical about Russia. Only $31 million in German investment went into Russia in the first half of last year—a puny sum that Yeltsin complained about to Kohl. By contrast, some $1.9 billion German investment went into Central Europe in 1995—much as went to the U.S. Kohl recently redressed the balan somewhat by helping persuade the International Moneta Fund to extend Yeltsin a $9 billion loan on easy terms. also leaned on German banks to cough up $2.7 billion loans for the Kremlin in early March.

Stabilizing Russia, of course, makes the Central Europe nations more secure, but they want more. These countr have made early admission to NATO and the European Uni their top priority. It makes them easy to see other countries cutti deals on their futures—especially R sia and Germany, who have a histo of carving up Central Europe.

HUGE COSTS. But the Central Eu peans do not have much choice but go along with whatever timetab Kohl sets. They need German mon to grow, and Kohl is still their ch patron inside the EU and NATO. In t heady days after the fall of Comm nism in 1989, Kohl promised supp for putting these countries on the f track for membership in both grou but now he is putting more emphasis on the EU, whi doesn't raise Russian hackles. "The first step is EU me bership, with NATO membership as a follow-up later," sa Horst Teltschik, a former Kohl foreign policy adviser who now on BMW's board.

Although the Central Europeans may balk at that messa it is a tough one to brush off. NATO membership would requ huge and probably unnecessary defense expenditures fr these relatively poor countries. Why not instead devote th limited resources to bringing their economies up to EU st dards? That is certainly what German companies putti their money into these countries would prefer.

By John Templeman in Bo with Karen Lowry Miller in Wars

GLOBAL WRAPUP

GOLDSMITH VS. MAJOR

▶ British Prime Minister John Major is expected to soon decide whether to call a referendum over Britain adopting the single currency that the European Union is planning to implement at the end of the decade. Major is under growing pressure to hold such a vote because of the activities of Euroskeptic Sir James Goldsmith. The Anglo-French financier is threatening to put $30 million of his own money into an anti-European Union campaign in Britain.

Goldsmith has been laying out his position in a series of full-page ads in the British press. He plans to recruit some 400 Parliamentary candidates for the next general election—to be held in May, 1997, at the latest. The Goldsmith party would favor a vote not just on currency union but on the whole question of Britain's role in Europe. With emotion on Europe running high in Britain, a pro-referendum party would likely draw away enough Conservative voters to assur Major's defeat, almost certainly bringing in a Labor government.

The issue is splitting Major's Cabinet. Kenneth Clarke, Major's pro-Europe Chancellor of the Exchequer, is threatening to resign if the Prime Minister goes the referendum route. Major is likely to see his parliamentary majority trimmed to one after a by-election in early April.

By Paula Dwyer in Londo

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HOUSING

A HOMECOMING FOR HOME BUYING

U.S. home ownership is growing again, thanks to low rates, stable prices, and lots of new households

Home, sweet home. Without much notice, at a time of widespread economic anxiety and deep-rooted fears over living standards, home ownership is reviving. More and more people are starting to own what has long been a vital element of the American Dream, their home.

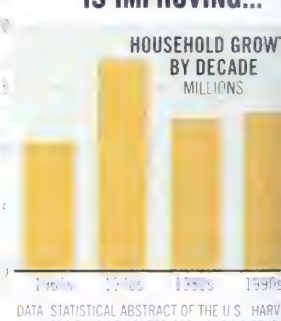
The trend is unmistakable. The proportion of all households that own their own home, the so-called home ownership rate, shot up in the last quarter of 1995, to 65.1%—the highest level since 1981. The spurt in home ownership is being fueled by powerful, long-term forces. Low interest rates and slow price appreciation are making a home far less costly now than at any time in the past two decades. Demographic trends are mostly favorable, too, including strong home buying by immigrants. Mortgage lending to low-income households and minorities is way up, and accelerating. "By the turn of the century, we will have record rates of home ownership," says Kenneth T. Rosen, head of the Fisher Center for Real Estate & Urban Economics at the University of California at Berkeley.

Robust home ownership is critical to the economy's health. Housing activity, ranging from residential construction to expenditures on furniture and appliances, adds up to some 15% of gross domestic product. And the impact of home purchases on economic activity is enormous: According to DRI/McGraw-Hill, for every $1 spent on housing, the economy increases by an additional $1.40—far more than with most other purchases. Indeed, when the U.S. came out of recession early this decade, housing directly accounted for nearly one-fifth of total growth during the following two years.

SHARP TURNABOUT. Today's improving outlook is a sharp turnabout from the 1980s, when a collapse in home ownership seemed imminent. After rising steadily for much of the post-World War II era, the rate began declining in the mid-1980s. High mortgage rates and mind-boggling prices put buying a home out of reach for an increasing number of families. Potential home buyers fled when home prices plunged in many markets toward decade's end. Some economists feared the worsening market was a harbinger of a long-term decline in home values since new-household formation was expected to plunge in the '90s, reflecting the sharp drop in the number of babies born two decades earlier.

Instead, the housing market has stabilized. What happened? Low interest rates, for one thing. Buying a home became far more affordable as fixed-rate 30-year mortgages fell from an average of almost 10% in 1989 to a little over 7% in recent months. At the same time, although there are sharp regional differences (with prices weak on the two coasts and strong in the Midwest) overall home price inflation has been moderate. In 1981, according to Fannie Mae, principal and interest payments for a new median-price home absorbed 41% of the typical family income; in 1995, it was 23% of income. Investing in real estate is "staggeringly more attractive for the home-buying public," says Sheila Rice, vice-president at Hen-

Why More People Will Own a Home In America



DATA: STATISTICAL ABSTRACT OF THE U.S. HARV UNIVERSITY JOINT CENTER FOR HOUSING STUD

ry S. Miller Co. Realtors in Dallas.

To be sure, although sales of new single-family homes rose at a robust 4.2% annual rate in January, the recent turmoil in the bond market could push mortgage rates up sharply, and sales could fall off in coming months. Corporate downsizings and layoffs are overhanging many real estate markets. Still, with inflation running well below 3%, it's hard to see any sustained upward movement in mortgage rates.

The demographics are also mostly positive for home ownership. The Census Bureau has hiked its population-growth forecast for the 1990s to 27 million, from an earlier estimate of 16 million. With this new forecast, instead of new-household formation plummeting as many experts had predicted, the total number of households in the U.S. should increase by 13 million in the 1990s. That's about the same as in the 1980s, says William Apgar, economist at Harvard University's Joint Center for Housing Studies. "There are a lot more people than we thought," says Karl Case, a professor of economics at Wellesley College.

Immigrants, who are flocking to America in record numbers, play a big role in the population gain. And the newcomers usually value home ownership highly. According to Harvard's Joint Center, among immigrants 25 to 34 years old in 1980 (who came to the U.S. between 1970 and 1979), some 24% owned their own home in 1980. A decade later, the rate for this cohort, now age 35 to 44, had more than doubled, to 55%. Some immigrant groups have made astonishing strides in home ownership: Among Chinese immigrants age 25 to 34 in 1980, 39% were homeowners. By 1990, at ages 35 to 44, some 83% owned their own home. "New immigrants have a strong orientation to savings, to family, and they have even more of a commitment to achieving home ownership than Americans as a whole," says James A. Johnson, chief executive of Fannie Mae.

Other demographic trends are also supporting the rise in home ownership.

SECOND CHANCE

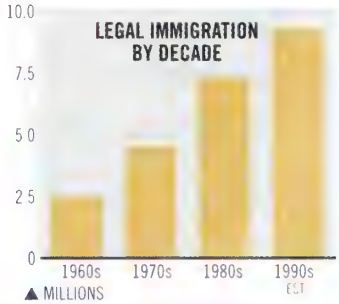
Boomers shut out during the pricey '80s are eager to buy now

Baby boomers are aging, entering their peak earning years—when their demand for housing is typically strong, especially for trade-ups. Even boomers nearing retirement are likely to live in a home of their own: Home ownership rates among the elderly are extremely high. At the same time, younger households priced out of the market during the 1980s are eagerly joining the ranks of first-time home buyers. Says Mark Zandi, economist at Regional Financial Associates

...FAMILIES ARE INCREASING...

DATA: CENSUS BUREAU, POPULATION REFERENCE BUREAU

...IMMIGRATION IS AT RECORD LEVELS...



DATA: FANNIE MAE

...AND IMMIGRANTS ARE AVID HOME BUYERS

Home ownership rate, (percent) immigrated 1970–1979	1980 age 25–34	1990 age 35–44
TOTAL	24.2%	54.9%
CHINA/TAIWAN	38.6	82.8
WESTERN EUROPE	37.9	71.1
VIETNAM	26.9	68.4
KOREA	29.9	66.2
CUBA	12.8	44.3
MEXICO	20.5	43.2
SOUTH AMERICA	18.3	42.6
CENTRAL AMERICA	12.9	29.3

DATA: HARVARD UNIVERSITY JOINT CENTER FOR HOUSING STUDIES, 1995

Inc.: "With the aging of the population, there are fewer prospective renters and more prospective homeowners."

There are hints that a core home buyer—the traditional family—is making something of a comeback. Over the past several decades, the huge rise in single-parent households has been a powerful drag on home ownership. Yet from 1990 to 1995, the numbers of two-parent families with children increased by 701,000, reversing a 20-year pattern of decline, according to Carol J. De Vita of the Population Reference Bureau Inc. True, the number of single-parent families grew by 3% per year at the same time—but that is well below the 6% annual rate of the 1970s.

URBAN PUSH. Buttressing all these factors is a surge in mortgage lending to low-income households and minorities—albeit from a low base. Low rates are the most important factor behind the increase, says Lawrence B. Lindsey, a Federal Reserve Board Governor. For another, government regulations are exerting pressure on banks and other mortgage-market players to enlarge their low-income lending. Mortgage loans to African American households in 1994 rose by 55%, and loans to Hispanic households by 42%, compared with 1993, says Allen Fishbein, general counsel at the nonprofit Center for Community Change in Washington, D.C. Experts predict another big gain for 1995. "More and more lenders are starting to believe in a calculated way that the untapped potential of the mortgage market is low-income and minorities," says Fishbein.

In addition, many community groups are working to expand home ownership, especially in the cities. For instance, nonprofit Habitat for Humanity International is now one of the largest homebuilders in the U.S., and the average price for a three-bedroom Habitat house is $34,300. Habitat's largest affiliate is in Atlanta, where the nonprofit has built and sold all its homes in the inner city. "We're definitely down to the lowest income level," says Lawrence Arney, executive director for Habitat's Atlanta affiliate.

Owning a home has long been a goal of most American families. And home ownership has traditionally spurred economic growth. Good news on the home front is good news indeed.

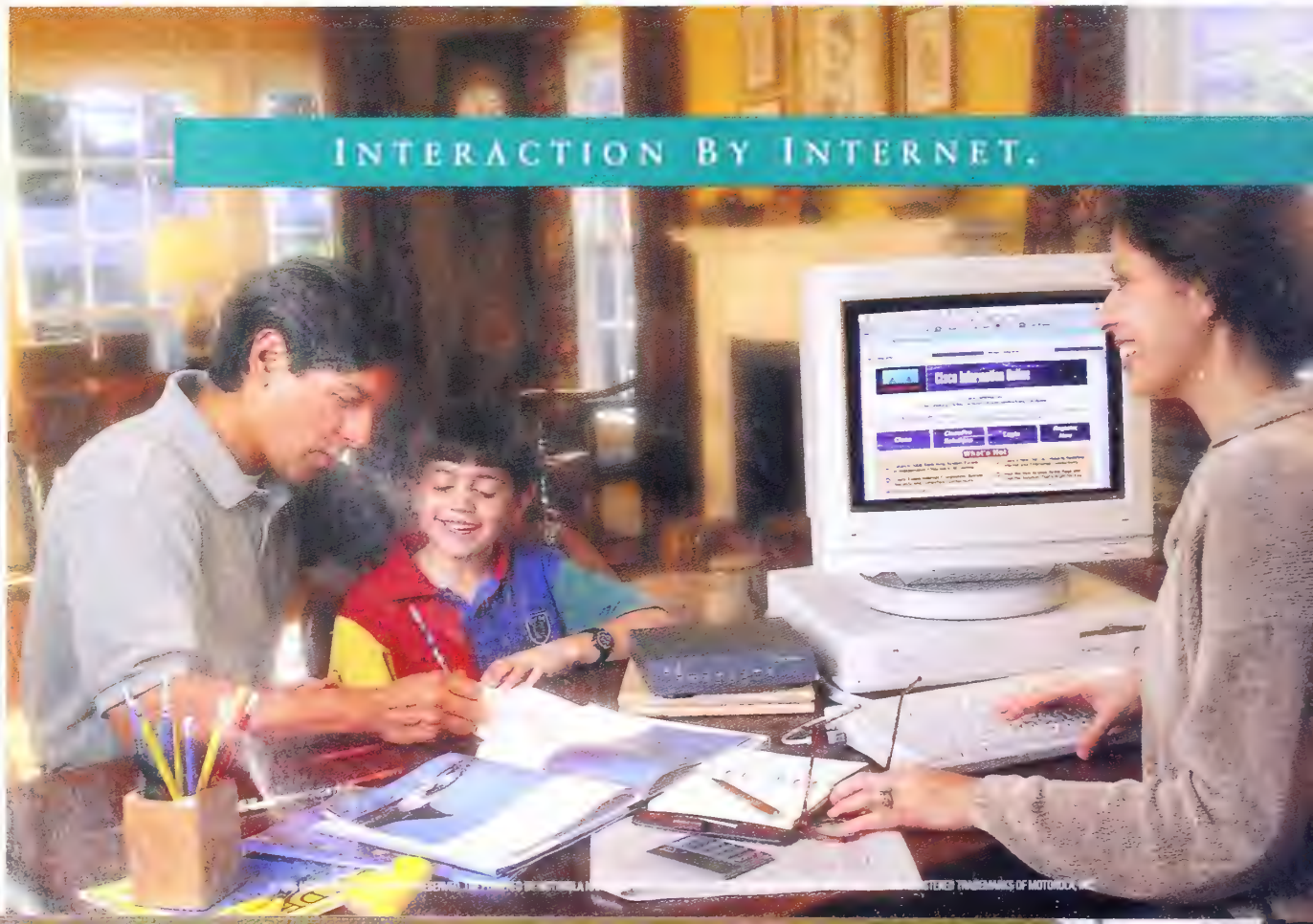
By Christopher Farrell in New York, with Amy Barrett in Washington, Stephanie Anderson Forest in Dallas, and bureau reports

A HOME IS QUITE A SHELTER

In the 1970s, home values soared with inflation. Hard assets almos ways do well in inflationary time *A Piece of the Action: How the Mid Class Joined the Money Class*, auth Joseph Nocera describes how "it be nearly impossible to go to a dinner and not wind up spending half the r discussing real estate prices."

No more. Inflation is tame. Ameri are pouring money into equity mutu funds at a mind-boggling rate. The r dinner-party chatter is heavy on the Dow. In these circumstances, is a ho still a worthwhile investment?

Simply put, yes. Real estate is a s sible hedge against the Federal Res Board faltering in its fight to keep i tion down. What's more, real estate tax-sheltered investment. Owners ge deduct their mortgage interest payn and capital-gains taxes are easily du And you pay "rent" to yourself rath than to a landlord.



RNIA DREAMING: *Checking out house in Brentwood*

, how does investing in a single- home compare to risking money ncial securities? To find out, econ- Mark Zandi at Regional Financial ates Inc. compared average annu- rns for stocks, bonds, cash, and family homes. Unlike financial se- s that are priced daily by inves- he returns to home ownership are to calculate, requiring heroic as- ions about the value of an asset aries a lot by location. Zandi's g-return figure includes median price appreciation and what the house would cost to rent, less the cost of maintenance and property taxes. All investments are for cash. Taxes aren't taken into account.

HAPPY RETURNS. The result: Single-family homes outperformed Treasury bills between 1975 and 1995 (9.4% vs. 7.8%) but lagged behind stocks and bonds (14.2% and 10.5%). Over the past five years, stocks returned 12.1%, bonds 10%, housing 6.3%, and T-bills 5% (chart). Between now and 1999, Zandi figures that single-family homes will return 6.4% a year. Stocks and bonds will still do better than housing, he believes, but by narrower margins than in the first half of the '90s. In other words, a respectable return to home ownership. Of course, most homes are bought with a mortgage, and borrowed money magnifies returns. "Leverage multiplies the return on the upside and the risks on the downside," says Karl Case, economics professor at Wellesley College.

The housing market has hit a financial sweet spot. Prices aren't rising so fast that buying a home becomes too expensive. But they are sprightly enough to make buying a home a savvy move.

By Christopher Farrell in New York

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CYBERPOLITICS

VIRTUALLY KISSING BABIES?

Net politics is growing, but it's not a potent grassroots tool yet

Back in 1991, Jonah Seiger spent a summer canvassing voters in suburban Detroit, trying to drum up support for campaign-finance and auto-insurance reform. Occasionally he found a bit of interest; more often, surly homeowners sicced the family pooch on him.

Now the dog days of Seiger's political organizing are ancient history—rendered obsolete by the power of cyberspace. In a recent campaign against antiporn restrictions on the Internet, Seiger helped organize a massive grassroots lobbying effort from the comfort of his keyboard. The campaign flooded Capitol Hill with more than 20,000 calls, faxes, and E-mail messages on one December day alone. "The online world has already changed democracy," argues Seiger, an analyst with the Center for Democracy & Technology. Maybe—but despite the blitz, Seiger's side still lost.

BOB'S PAGE: *Practically all major candidates have their own Web sites*

Call it the cyberpolitics paradox: Activists of all stripes are catching Web fever even as the payoffs remain slim. So far, politics on the Internet is more a exotic entertainment than a potent cam paign tool. "For now, the idea of ele tronic democracy is on hold," says Roge Hurwitz, a researcher at Massachuset Institute of Technology.

LAPTOP BRIGADE. That hasn't deterre pols from rushing online. For the fir time, Net surfers can download scree savers with images of GOP Presidenti front-runner Bob Dole, get their taxe calculated under California's flat-tax in tiative, or keep "instep" with the cand dates on Johnston & Murphy's tongue-i shoe guide to the Presidential rac Virtually all major candidates—even ha the members of the stodgy Senate—no have their own Web sites, and companie such as Stardot Consulting Ltd. ar Votelink Inc., both in Boulder, Colo., hav sprung up to help techno-novice offic seekers take to the online hustings. I stead of fearing Pat Buchanan's pitc fork-wielding revolutionaries, "politician need to watch for cybervoters comin over the hills with laptops," promise Votelink President Alexia Parks.

Internet denizens claim to have infl enced the outcome in close races, such a Democratic Representative Ron Wyden recent victory in Oregon. But so do e

onmentalists and other interest groups obying the old-fashioned way. In fact, e major political benefit of being online w seems to be simply avoiding the la- l of technophobe. "You may be more rt by not having a Web site than lped by having one," says Stardot esident Jared P. Schutz.

One problem is the small dience in cyberspace. "The ternet still does not reach ough people to have a ajor effect," says Andrew einstein, Webmeister for the ole campaign. While up to million Americans have In- net accounts, less than 10% obably surf political pages. those, only a few thousand ll actually be influenced by candidate's online offering, einstein figures. Indeed, do- tions spurred by Dole's— nsidered to be the most en- rtaining of the bunch—are anuts, just enough to pay its $10,000 cost.

With Net use exploding—half of those line came aboard in the past year—ex- rts believe cyberpolitics will become icial by 2000. But politicians will have become more sophisticated first, cy- rgurus say. Right now, "putting up a eb site is like putting literature on a table in your campaign office," says California computer columnist Jim Warren. "That's not campaigning."

What's more, experts argue, the true value of the cyberworld—and the key to its ultimate political power—comes from its two-way communication. "For the past hundred years, people have had no control over the content of messages from politicians and advertisers, or when or how they came," explains Jonathan P. Gill, a former White House aide. "With the new media, you can relate to people as partners instead of targets."

For politicians, that would mean actually listening to the online masses, not just to pollsters or a few well-connected constituents—a threatening notion to many old-line pols. But as more citizens use the Net, they'll demand no less from their candidates, predicts Gill. If politicians don't treat voters as partners by the 2000 election, "there will be a train wreck," he warns.

"BILLBOARDS." A few politicians have heeded that call: Senator Patrick J. Leahy (D-Vt.) wins kudos for holding electronic town meetings. But, notes MIT's Hurwitz, "most of the Web sites just look like advertising billboards." In fact, many sites, including Dole's, don't allow browsers to send E-mail to the campaign staff. And even Congress' savviest Net nerds are still searching for ways to sift through the flood of E-mail they do receive in order to cull the views of actual constituents who live—and vote—in their districts.

Indeed, although legions of dabbling cyberpols trumpet it as the wave of the future, the vote on electronic democracy is still out.

By John Carey in Washington

WHERE THE HOPEFULS HANG OUT

CANDIDATE	WEBSITE/ WHAT'S THERE
BILL CLINTON	http://www.whitehouse.gov Site geared for disseminating information and federal documents, not campaigning
BOB DOLE	http://www.dole96.com Most interactive site; besides speeches, try the Dole trivia quiz or download Dole posters
STEVE FORBES	http://www.forbes96.com Users can browse Forbes family pictures and calculate their taxes under his flat-tax plan
PAT BUCHANAN	http://www.buchanan.org Crammed with speeches and position papers on everything from immigration to abortion

DATA: BUSINESS WEEK

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LOBBYING

KICKING AND CLAWING FOR LEO THE LION

Parretti and Crédit Lyonnais duke it out over MGM

Well-connected banking lobbyist Robert S. Royer never paid much attention to the goings-on in Hollywood. But that changed one evening last summer as he sat smoking cigars on the porch of fellow bank lobbyist James J. Butera's home. The two Washington insiders mulled over Butera's tricky new assignment: to quietly amend U.S. banking laws so that his new client, French state-owned bank Crédit Lyonnais, can avoid an onerous May, 1997, deadline for selling Metro-Goldwyn-Mayer Inc.

These days, Butera and Royer are locking horns instead of smoking cigars. Butera has succeeded in getting a provision added to a pending bill that would give Crédit Lyonnais until 2002 to sell the studio it took over from Giancarlo Parretti in 1992. But Parretti, the controversial Italian financier who has been in litigation with Crédit Lyonnais over MGM for years, wants a shot at buying back the weak but legendary studio. Parretti hired Royer last December to derail Crédit Lyonnais' lobbying gambit. The battle is heating up as the bill containing Crédit Lyonnais' amendment gains momentum for passage, and the French bank's behind-the-scenes legislative remedy has turned into an increasingly noisy fracas.

DEADLINE DANCE. Certainly, the French would benefit from extra time. The studio, nearly bankrupt when the bank took control, has enjoyed a recent string of hits, such as *Get Shorty*, *Leaving Las Vegas*, and *The Birdcage*. With those successes giving MGM a boost, Lazard Frères & Co. began shopping it to potential buyers on Mar. 12. The bank, which has about $2 billion invested in MGM, hopes to sell for at least $1.5 billion. But the looming deadline puts it in a weak negotiating position. Crédit Lyonnais and Butera declined to comment for this story.

So Crédit Lyonnais is doing all it can to avert a shotgun sale. Last March, it transferred about $27 billion of mostly troubled assets—including MGM—to Consortium de Réalisation, which is also overseen by the French government. The French hope this removes the studio from the bank's books. But the Federal Reserve Board, which regulates Crédit Lyonnais in the U.S., has not yet indicated whether the maneuver puts MGM out of Fed jurisdiction.

Then in July, two House members added Butera's amendment to a pending banking bill. Without naming Crédit Lyonnais, the provision allows domestic and foreign bank holding companies to hold foreclosed assets for up to 10 years instead of 5. In September, a similar provision was attached to the Senate's banking bill. Curiously, a panel staffer says no one can recall if any senator specifically promoted the fi

Since then, the battle has grown i creasingly ugly. In January, Royer cor plained to the Justice Dept. that tw partners at the law firm of Whit & Case, which represents Créd Lyonnais in its litigation against Pa retti, have been illegally lobbying fo the bank without registering a foreign agents. The firm says it brok no laws.

BROAD SUPPORT. As Crédit Lyonna and Parretti duke it out on Capitol Hi the banking bill may be poised to mov Congressional staffers say the broa regulatory-relief bill, which cuts pape work and some potential legal liabil ties for banks, has broad support an could be passed quickly by Republican looking to rack up some legislative a complishments. Royer has been bus trying to create a fuss about Congres helping out a foreign bank. He's be ting few if any lawmaker will argue on Crédit Lyon nais' behalf.

But lawmakers are just a reluctant to come to the a of Parretti. His iffy history includes conviction, now under appeal, in Italy i volving currency transactions. Notes or Senate staffer: "This is more like a fam ily feud than a public policy debate."

And what a family it is. Poor MG has been battered over the last fe years as it has been bought, sold, an foreclosed upon. With this latest wran gling between its current and pas owners, MGM doesn't look like it wi be rid of these characters for som time to come.

By Amy Barrett in Washingto

THE MGM STORY

OCTOBER, 1990 Giancarlo Parretti buys for $1.3 billion.

MAY, 1992 Crédit Lyonnais takes control of the studio. Under U.S. banking law, it has five years to sell.

JUNE, 1995 Crédit Lyonnais hires a lobbyist to change U.S. banking law. By fall, its proposal is added to pending legislation.

DECEMBER, 1995 Parretti hires his own lobbyist to thwart Crédit Lyonnais' bid for more time.

MAY, 1997 Expected deadline for Crédit Lyonnais' MGM sale unless banking law changes.

SITTING PRETTY: *Hits like* The Birdcage *make MGM easier to sell*

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WHIZ KIDS

WHO NEEDS A DEGREE?

"It's all intuitive" for Chris Oliver, Cabletron's ace techie

Christopher J. Oliver needed an inspiration. The director of engineering for Cabletron Systems Inc. saw his best engineers tied up in knots over the design of a new computer network switch. The company seemed in danger of losing its edge in the rough-and-tumble market for networking equipment.

At home with a pencil and a notebook, Oliver sketched out diagrams for what would become the SmartSwitch, introduced last year as Cabletron's bid to remain the dominant provider of high-end hubs and switches that transmit data among computers. Says company co-founder Craig R. Benson: "In a couple of weekends, he managed to find the breakthrough that 20 guys had been working on for eight months."

In an industry notorious for technological complexity, the person Cabletron counts on to keep it in the game is the 35-year-old Oliver—whose education ended with six months of vocational training after high school. "It's all intuitive," says Paul Johnson, an analyst with Robertson, Stephens & Co. "He doesn't have the formal training, and yet he has been the technical architect behind a billion-dollar company."

BAD BOYS. In 1985, Benson, a friend, hired Oliver as employee No. 5 at Cabletron, which got started in a garage, cutting computer cable to order. Today, Cabletron is part of the networking industry's top tier, alongside 3Com, Bay Networks, and Cisco Systems. For the fiscal year ending Feb. 29, the company is expected to report profits of $216 million on sales of $1.1 billion—a gain of about 31% for both.

In recent years, Benson and co-founder S. Robert Levine have become known as networking's bad boys, putting down rivals, feigning takeovers, and winning praise for taking meager salaries—even though the value of their joint 29% stake has soared with Cabletron's overall capitalization, now about $4.9 billion.

Oliver has become known for his sense of where the industry is going. When rivals moved rapidly to adopt a network standard known as ATM, for asynchronous transfer mode, Oliver held back. Cabletron introduced some ATM products in February—but waiting, he says, let him avoid overinvesting in a technology that proved slow to catch on. "When the whole industry was running to invest in ATM, I said 'Why?'" he boasts. "Just because it's the new thing doesn't mean it's the right thing."

Ironically, detractors sometimes say Cabletron's products are too advanced. But suppliers and analysts credit Oliver with an uncanny grasp of networking's constantly shifting, interlocking standards and technologies. The unfolding of such natural gifts is not uncommon in software—Bill Gates is the pro-

"MACHINERY GUY": *Oliver i building a plane from a ki*

"VISIONARY" Oliver's baby, the SmartSwitch, links four times as many computers as rival products

totypical nerd who dropped and made good. But Olive peers—and subordinates— electrical engineers with mu ple degrees. Networking "rocket science," says anal Esmerelda Silva of Internati al Data Corp.

Oliver's boldest gamble far is his reliance on compu chips known as ASICs—appl tion-specific integrated cuits—to handle the comp queueing of data in high-sp networks. "This is a mechan problem, and I'm a machin guy," Oliver says. "So I b a machine." His "machine" u a custom chip that hardwi in one piece of silicon, m routing tasks previously p formed by software. The ju in performance is impress The SmartSwitch can link f times as many computers rival products and boosts d transmission speed by a fac of five. John Leediker, I Corp.'s general manager networking and imaging, c the advance "visionary."

COWBOY BOOTS. Oliver doe claim to know the source of knack. Growing up in Danv Mass., he devoured *Popu Mechanics* and cared m about motorcycles and tra than school. His father, v ran a machine shop, often t him to nearby Salem to wa the trains. His parents worr he says, when he quit work a bench technician to j Cabletron.

A "machinery guy" on a off the job, Oliver designed own car—a mid-engine Corvette b with parts his father helped machi Now he's assembling a single-eng plane from a kit. And he and his sec wife, Christine, are designing a $10 m lion house.

Oliver's growing prominence a wealth—his 1.8% stake in Cabletron worth about $88 million—have fue his already supreme self-confiden Wearing cowboy boots and spout cocky self-assessments—"I love chan I run toward change"—he seems alm ripe for a fall. Then again, in an ind try that punishes technical screwups morselessly, he hasn't stumbled yet.

By Paul C. Judge in Rochester, N

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NTREPRENEURS

THIS IS MY LAST STARTUP. IONEST

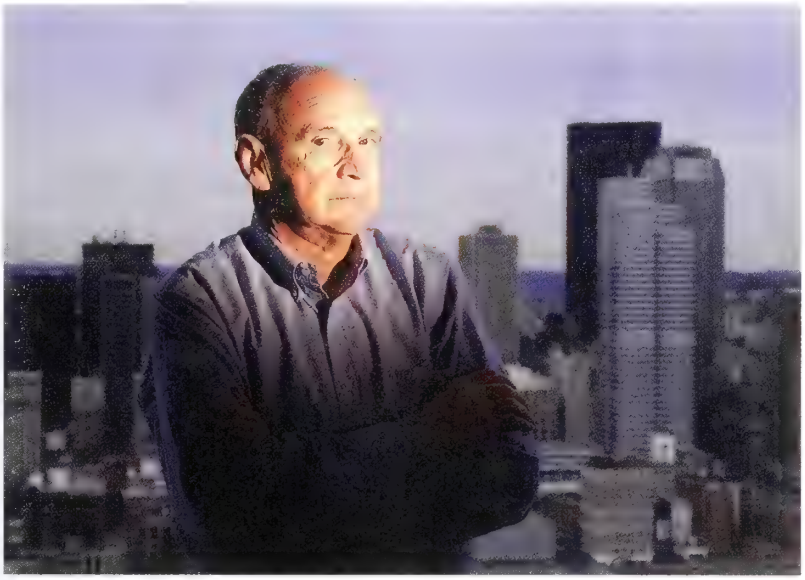
on Jones vows he'll stay with his latest, Industry.Net

With every seminar at Carnegie Mellon University, nald H. Jones felt the essure mount. In his w role as lecturer, nes, legendary in tsburgh as an entreeneur, was proving te a raconteur. As he ounted his adventes building and sell- three high-tech comies, his students gan surrounding him er class, begging him start one more comy—with them. "O.K., K.," they'd say when nes insisted he had no ns. "But if you were ng to start another, at would it be?"

Finally, Jones relent- "I do have this one idea...," he alls saying. With that, the Jones press was off. He started calling his b of investors, who have made milns with him, and his technical buds, asking if they'd like to take anothride. In short order, he had a team d a new company—Industry.Net, an ine matchmaking service for compaes and suppliers.

ER HIS HEAD? That was 1990. By now, sed on Jones's record, the company uld be sold, the mon- in the bank. Instead, January, the unassum- Jones brought oard a high-profile o—Jim P. Manzi, who it as CEO of Lotus velopment Corp. last tober, three months er IBM bought it.

In the life of every h-tech startup, Jones plains, there's a point nen the focus must ve to marketing. At at point, you sell, or u raise millions and oot for the big time.



BY POPULAR DEMAND: *Jones's Carnegie Mellon students made him do it*

With Industry.Net, which soon evolved into an industrial "mall" on the World Wide Web, Jones opted to take his shot.

But not alone. Last fall, he visited headhunter David Beirne and said he wanted to hire the best CEO in the country. Beirne produced a list of 20 names. When he saw Manzi's, Jones says, he told Beirne: "I don't want to talk to anyone else." He was impressed that Manzi had built Lotus in a fiercely competitive market. In January, Jones met Manzi, sold him a big minority stake, and hired him. Manzi says he was drawn to Jones because they both see people as a company's chief asset.

Now, Industry.Net, one of the biggest Web businesses, is on a major growth push. It's hiring programmers in nearly every major U. S. city, and a public offering is likely. Jones, now chairman, runs operations in Pittsburgh, while Manzi drives for international growth from Boston. Jones says Manzi has told him: "You keep the wheels running, while I put wings on this thing."

It's a new world for Jones, who has never paraded any of his clannish companies down Wall Street or before the media, never subjected one to such a growth push—and never shared power with a hard-driver such as Manzi. In early March, when four key Lotus vice-presidents left to join Industry.Net, Manzi's edge seemed evident. Some former colleagues say the hires are meant to hurt Lotus, not help Industry.Net. Says Manzi: "I don't know what's going on at Lotus. I'm looking to attract quality people."

Could Jones be over his head with the notoriously prickly Manzi? The entrepreneur, who spoke to many people who had worked for Manzi before hiring him, denies any tensions. "Our chemistries," he insists, "are incredibly parallel."

Jones, 58, has spent his whole life around Pittsburgh; he grew up on a farm nearby. Like many area engineers, he got his start at Westinghouse Electric Corp., in 1961. Within months, he quit to join a smaller company, J. W. Fecker, which built machinery to control the motion of satellite systems. There, he began meeting the technologists and investors who would join his four startups.

In 1968, Jones founded Control Systems Research to make machines to control the speed and modulation of motors. The technology was "very rudimen-

Jones Starts 'Em and Sells 'Em

COMPANY	LAUNCHED	PRODUCT	COMPANY SOLD
CONTROL SYSTEMS RESEARCH	1968	Precise motor controls to automate manufacturing	1976, to Switzerland's Contraves
TECHNOLOGY RECOGNITION	1979	Industrial directories produced with PCs and modems	1981, to A.B. Dick
INTERNATIONAL CYBERNETICS	1982	Brains for industrial machinery	1985, to Gould Electronics
INDUSTRY.NET	1990	Industrial "mall" on the World Wide Web	

tary," recalls Myles Berkman, an original investor, "but Don could always push things ahead of the curve." In 1976, Jones sold CSR to Contraves Inc.

By then, the personal-computer revolution was at hand, and "I got interested in databases," Jones says. He set up a company that used a Tandy PC and a modem to assemble industrial directories. Soon, Technology Recognition Corp. was selling directories worldwide—and Jones sold it to A. B. Dick Co.

That was in the early 1980s, when companies were eager to automate to cut costs. With General Motors Corp. earmarking $40 billion to revamp plants, Jones saw a gaping market. He founded International Cybernetics to develop industrial robots—but soon altered the plan. Reasoning that companies would pay dearly to avoid retooling whole factories, he moved IC into making control boxes to add to existing machines. Soon GM gave him a fat contract for the new Saturn plant in Spring Hill, Tenn. In 1985, Gould Electronics bought IC for $40 million, most of which went to Jones.

NO BEHEMOTHS. In 1987, Jones gave $1 million to Carnegie Mellon's entrepreneurial center and turned to teaching. "I come home at 10," he says, "and my wife says, 'I can tell you've been teaching. You're all pumped up.'"

His students get pumped up, too, which is how Industry.Net was born. Jones & Co. first saw the company as a kind of computer dating service for industry, providing companies and suppliers the data to find the right match. Then, in 1993, D. Navin-Chandra, a computer-science professor at CMU, gave Jones his first look at the World Wide Web. Within minutes, Jones says, he decided to put Industry.Net on the Web and turn it into an industrial mall. He also offered the professor a part-time job. "I said, 'This is where the action is,'" Jones recalls.

And how. Today, some 4,500 manufacturers and suppliers, from IBM to tool and die shops, pay from $3,000 to $8,000 a year to maintain electronic storefronts on Industry.Net's site, where customers not only shop but also complete transactions. Industry sources put last year's sales at more than $28 million and expect them to double this year.

Jones wants to ride this one all the way. While his industrial ventures bucked up against bigger rivals, he notes, Industry.Net faces no behemoths. He thinks the service has reached barely 1% of its potential market. And what of Jones's role in the company Manzi is increasingly shaping from Boston? It's murky. But given Jones's history, he's not likely to wind up poor, or alone.

By Stephen Baker in Pittsburgh

SEMICONDUCTORS

RUNNING WAFER-THIN

Silicon famine will be felt all the way up the food chain

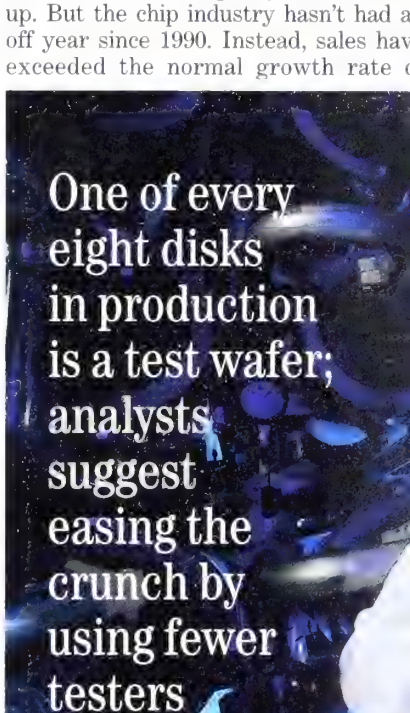
Silicon is one of the most abundant elements on earth, but that's scant comfort for the makers of silicon semiconductors. While some investors worry about a possible glut in the $56 billion market for dynamic random-access memories (DRAMs), experts at Dataquest Inc. and Rose Associates point to an issue that could have longer-term implications: a looming shortfall in silicon wafers that will crimp the ability of chipmakers to fully satisfy demand.

How severe the shortage will be and how long it will last are in dispute, but many believe that wafer supplies will get tight by late summer, then intensify in 1997 and perhaps 1998. Dataquest reckons the shortage could stretch into the next century, at least for the latest 200-millimeter size (chart).

There's no way to avert a short-term deficit, because wafer suppliers cannot expand production as fast as chipmakers can. From now until 2000, the worldwide chip industry will build 140 fabs—or fabrication plants—says Strategic Marketing Associates Inc., a market-research firm. While a new fab can go up in just 12 months, building a wafer-making plant takes half again as long. Some chipmakers might take a hint from Micron Technology Inc., which recently postponed the opening of its next fab, and delay cutting the ribbons on their own new plants. But that won't ease the supply problem, says Clark J. Fuhs, head of materials, forecasting, and silicon research at Dataquest. "Our forecast of tight silicon supplies already takes into account delays in some DRAM fabs planned for 1997 and 1998."

STRETCHED THIN. A further complication is that wafer makers have their own supply problems. The plants that supply them with raw material—polysilicon, an ultrapure form of sand—take the longest of all to build. "You need at least 24 months to bring a new polysilicon plant onstream," says Duane O. Townley, a vice-president at polysilicon-producer Hemlock Semiconductor Corp.

Polysilicon suppliers have fallen u usually far astern because of the dra matic growth in the chip market. Th chip business has historically gon through cycles, with demand slacke ing every three years or so. That give silicon production capacity time to catc up. But the chip industry hasn't had a off year since 1990. Instead, sales hav exceeded the normal growth rate



15%—topped off by a 44% explosion i 1995, to $155 billion. Yet the Semicon ductor Industry Assn. was predictin as late as October, 1994, that chip out put in 1995 would climb only 15%. As result, says Daniel J. Rose, presiden of Rose Associates, a Los Altos (Calif consulting firm, "the whole food chain i stretched right to a thin hair."

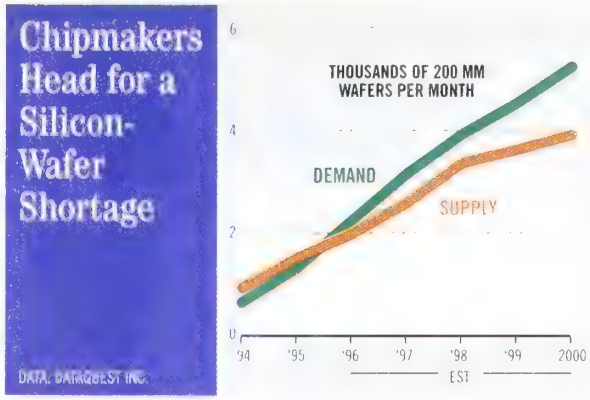
The semiconductor industry can seem inscrutable even under the best circum stances. Chipmakers build the world'

most expensive factories to turn out industry's cheapest products: transistors, the key components in all microchips. The cost of building wafer fabs doubles every three years—the tab for a world-class fab now stands at $1.25 billion and should hit $3 billion by 2000—yet the price of transistors drops 20% to 30% a year. The ever-cheaper chips continually create new markets that more than offset the smaller revenues from each chip.

ODD MATH. Lately, the strange arithmetic of chipmaking has caused more head-scratching than usual. Lingering concerns about a chip surplus intensified on Feb. 26, when Micron Technology, one of the top-10 DRAM makers, announced a delay of several months in the opening of its newest chipmaking factory in Utah. The next week, Fujitsu Ltd. delayed construction of its next fab, in northeastern England. On Mar. 6, Texas Instruments Inc. warned that industry sales in 1996 might not match forecasts. Why? All three pointed to the prices of DRAMs, which have fallen as much as 40% since December. DRAMs represent one-third of the total chip market.

SAND MAN: *Stolze, of MEMC, holding a disk of ultrapure polysilicon*

The plunge in DRAM prices has had repercussions in the stock market. In January, Tokyo's Nomura Research Institute downgraded the stocks of many Japanese DRAM producers. That triggered a sell-off by Japanese speculators. The same thing happened on Wall Street—where the most extreme case was that of Micron. Its stock peaked at more than $94 last September, but has since plummeted to around $30.



Despite the indications of a silicon shortage, wafer producers will likely be cautious in adding capacity. They don't want to repeat the fiasco of a decade ago. In 1984, as chip sales zoomed 46%, wafer and polysilicon companies plowed millions into expansions, then watched in horror as chip sales plummeted in 1985. Ever since, there has been a glut that has forced suppliers to scrape by on margins of 2% to 6%, says Rose. As the overcapacity dwindled—from 112% in 1993 to 50% in 1994 and to 17% last year—profits finally picked up. By the end of 1995, "our margins had improved to 25%," says Chief Financial Officer James M. Stolze of MEMC Electronic Materials Inc., a leading wafer maker.

DRAM DEMAND. The current surplus of DRAM chips probably won't alleviate the wafer pinch, because the glut is temporary. Late last year, DRAM producers got caught by an unexpectedly quick technology shift from conventional, "fast page mode" (FPM) chips to a speedier type of DRAM circuitry dubbed "extended data out," or EDO. Demand for the latter was sparked by computers based on Intel Corp.'s fastest Pentium chips and rapidly took hold. The swing from FPM to EDO "happened almost overnight," says James J. McGregor, a senior analyst at chipwatcher In-Stat Inc. As a result, DRAM suppliers are scrambling to crank out more EDO chips—and steeply discounting FPM designs.

Once FPM inventories are gone, prices could stabilize or even increase before returning to their usual decline. But prices won't hold the line, as they did for three years before the blip created by the FPM glut. Prices defied the historical trend of steady declines only because supplies were tight—a consequence of stingy capital spending in the early 1990s. Now, DRAM makers such as Samsung, Hyundai, and NEC have brought many new fabs on line, with more to come.

That's good news for buyers and sellers of multimedia PCs. To handle more daunting sound and video effects, these computers typically come stuffed with up to four times as much memory as the PCs of just a couple years ago, when 4 megabytes of DRAM was considered adequate. Sales of multimedia PCs haven't lived up to expectations, in part because prices remain so high. The cost of 16 megabytes of DRAMs can represent a third of a PC's total price.

LOCKED IN. Lower DRAM prices should stimulate demand for memory chips and power-packed PCs in the months ahead. Indeed, sales of DRAMs are projected to outpace the rest of the chip industry in 1996. Last year, world semiconductor sales jumped an impressive 44%—but the DRAM business was even more spectacular, soaring 70% above 1994. For this year, the Semiconductor Industry Assn. puts DRAM growth at 40% and overall industry growth at 26%.

To cover their futures, DRAM producers and other big chipmakers are locking wafer suppliers into long-term contracts that guarantee deliveries for up to five years. Wafer makers, in turn, are striking similar deals with their polysilicon suppliers—or simply acquiring them. Because captive suppliers can't say no to their owners, the polysilicon crunch should ease by 1997, says Dataquest's Fuhs.

The wafer shortage could also ease by late 1997, if chipmakers decide to change their ways. Today, one of every eight silicon disks on the production line is a test wafer, used to verify that the "real" wafers are processed correctly. More automated production-control systems could slash this waste. Like a cobbler's shop, chip fabs often depend on reliable but old-fashioned equipment. While this is changing, Dataquest does not expect the adoption of better control systems to spread fast enough to prevent a tightening of wafer supplies in the decade's waning years. And if undercapacity increases by 2000 to the 25% shortfall predicted by Dataquest, some fabs may be locked up out of necessity, not choice.

By Otis Port, with William Winkler, in New York

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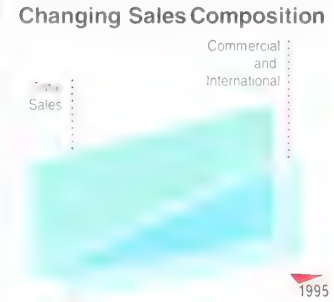

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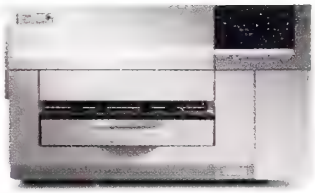

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EDITED BY OTIS PORT

DIVIDING AND CONQUERING AUTO EMISSIONS

CATALYTIC CONVERTERS HAVE been remarkably successful in reducing auto emissions. But the Environmental Protection Agency is looking for improvements. Starting with the 1996 model year, the EPA will require a dashboard warning light that indicates catalytic converter malfunction. Also, this summer, the agency will issue a rule regulating "command enrichment"—the delivery of extra fuel to help cool an accelerating engine, at the cost of a huge jump in carbon monoxide emissions.

Taking a different approach to cleaning up exhausts, the Energy Dept.'s Argonne National Laboratory has devised a system that captures air and uses a membrane to divide it into two streams, one rich in oxygen and one rich in nitrogen. The oxygen-rich stream flows into the engine. That helps the fuel burn more completely, but it also creates extra nitrogen oxide emissions. To remedy that, the nitrogen-rich air stream is fed to the exhaust. There a spark plug breaks up the nitrogen molecules. They react with nitrogen oxides to form harmless nitrogen and oxygen. Argonne says the system cuts nitrogen oxide emissions by more than half.

Corning Inc. has also made a contribution to auto-exhaust cleanup. It has developed a so-called zeolite to soak up exhaust gases that would otherwise escape before the catalysts are hot enough to kick in and cleanse them. Corning says the spongelike mineral helps slash hydrocarbon emissions to below the ultralow-emissions vehicle standard for 2000.

NO CHINK IN THIS CERAMIC ARMOR?

FIVE YEARS OF WORK HAS YIELDED A CERAMICS BREAKthrough—a material similar to what's used for dinner plates, but so tough it may end up as armorplate on tanks. "We're also looking at pistons and turbines" for auto and jet engines, says the material's developer, William W. Predebon of Michigan Technological University in Houghton. Another possible use: Industrial cutting tools that easily chew through high-strength metals.

The secret of the new alumina ceramic? Predebon took things out of the usual ceramic mix. Ceramics are difficult to process, so they normally contain sintering aids to help hold the ceramic mix together. But when Predebon inspected ceramic fractures under a microscope, he noticed the breaks often occur in the sintering additives. So he removed that weak link by developing a new processing method, using a hot vacuum press, that doesn't need additives.

The resulting material is so tough it doesn't break until he applies 50% more pressure than alumina ceramic is supposed to tolerate. Under normal conditions, it can withstand almost as much pressure as tungsten-carbide steel, one of the strongest materials around. And under high loading—such as extreme pressure from the impact of an artillery shell—the ceramic's toughness actually increases, beating tungsten-carbide steel by 37%.

INNOVATIONS

■ Blood clots kill 200,000 people each year. Many victims are too ill to be treated with the blood-thinning drugs that can prevent clots. Now, doctors at the Medical College of Virginia in Richmond are testing a filter that is put in an artery to catch clots. The filter is removed when patients can receive anticoagulants. And the choice of anticoagulants might soon increase, thanks to research on hookworms. The gene for the substance they secrete to keep blood from clotting while they feed has been cloned jointly by scientists at Yale University and Corvas International Inc., a San Diego company.

■ Next March, the University of Illinois plans a birthday bash for HAL, the computer in *2001: A Space Odyssey*. In the movie, which was released 28 years ago, writers Arthur C. Clarke and Stanley Kubrick have HAL being built at the university in 1997. To join the fun, Clarke plans to link up via satellite from his home in Sri Lanka on March 14.

REAL LESSONS FROM A PSEUDOTUTOR

IF HERMAN AND HIS KIND can live up to the initial raves of students at Martin Middle School in Raleigh, N.C., teachers will soon be getting help from pseudospace. A bug-like alien dreamed up by researchers at North Carolina State University, Herman is just a computer simulation, but a savvy one.

He's a tour guide for the Design-A-Plant program. To teach botany to children aged 9 to 14, Herman takes them to four planets and explains the different ecologies. Then Herman challenges each student to devise a plant suited for that planet. By analyzing the responses to periodic questions, Herman's artificial-intelligence component sizes up its human students and adjusts the interactive presentation accordingly. For families that can't afford a personal tutor, Herman the pseudotutor could be the next best thing.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwmar@businessweek.com

ILLUSTRATIONS BY MARIA RENDON

THE BUSINESSWEEK 1000

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1995 WAS ONE FOR THE BOOKS

America's most valuable companies grew even more valuable–by a record 35%

For Cisco Systems Inc., 1995 was the year when all the chips fell into place. Corporations were suddenly racing to do more of their business across computer networks—including the Internet. And as the network traffic rose, so did demand for the switches that Cisco makes to manage the Net. Sales raced up 73% last year, to $2.7 billion, while earnings rocketed 94%, to $634 million. "Less than 1% of the world has Internet access," exults Cisco Chief Executive John T. Chambers. "We're in the very early innings of this game."

And up in the bleachers, investors are cheering: Cisco's market value soared 189%, to $26.3 billion. The hefty gain sent Cisco scrambling up this year's BUSINESS WEEK 1000, the annual roster of America's most valuable companies. Just 10 years old, the company now ranks No. 40, surrounded by venerable titans such as Boeing Co. and 3M.

The fundamentals couldn't have been more different at Ford Motor Co., which spent much of 1995 stuck in neutral. Hit by slowing car demand and costly new product introductions, Ford's sales rose just 7%, while profits fell 22%, to $4.1 billion. Yet as the greatest bull market in history galloped past its fifth year, investors bid Ford's value up 36% anyway.

It was a remarkable year for Corporate America. The BUSINESS WEEK 1000, which ranks the largest public companies by their market value as of Feb. 29, climbed 35%, an all-time record. With inflation low, interest rates in check, and productivity high, Wall Street suspended disbelief a one company after another

THE TOP 15 IN MARKET VALUE

RANK	COMPANY	MARKET VALUE BILLIONS OF $	PERCENT CHANGE FROM A YEAR AGO
1	GENERAL ELECTRIC	$125.8	35%
2	AT&T	101.2	25
3	COCA-COLA	101.1	44
4	EXXON	98.7	24
5	PHILIP MORRIS	82.8	60
6	MERCK	81.6	54
7	IBM	68.5	55
8	JOHNSON & JOHNSON	60.6	66
9	MICROSOFT	58.2	59
10	PROCTER & GAMBLE	56.3	23
11	HEWLETT-PACKARD	51.4	75
12	PEPSICO	49.8	61
13	WAL-MART STORES	48.7	–11
14	INTEL	48.3	47
15	AMERICAN INTL GROUP	45.9	40

THE TOP 15 IN SALES

RANK	COMPANY	1995 SALES BILLIONS OF $	PERCENT CHANGE FROM A YEAR AGO
1	GENERAL MOTORS	$168.8	9%
2	FORD	137.1	7
3	EXXON	109.6	8
4	WAL-MART STORES	93.6	13
5	AT&T	79.6	6
6	MOBIL	74.9	11
7	IBM	71.9	12
8	GENERAL ELECTRIC	70.0	17
9	CHRYSLER	53.2	2
10	PHILIP MORRIS	53.1	–1
11	DUPONT	42.2	7
12	CHEVRON	37.1	4
13	TEXACO	36.8	10
14	SEARS ROEBUCK	34.9	6
15	PROCTER & GAMBLE	34.9	11

hurned out strong, steady earnings. Depite a slowing economy, profits overall rew 15% on a 12% revenue hike. Add to hat investors' willingness to reward virially any move—from spin-offs to mergrs to stock buybacks—and 1995 was a akewalk.

But as the savage market fluctuations f early March showed, 1996 is shaping up nore like a walk on the wild side. With he economy sending increasingly conicting signals, such volatility will remain big feature of the landscape. And that's aking a repeat of last year's across-theoard gains look less likely by the day. Alhough a huge inflow of retirement money ontinues to backstop the market, skitsh investors are becoming more disriminating. "This period really will sepaate the grownups from the kids," says wight L. Gertz, a vice-president of New ork-based Mercer Management Consultg Inc.

ANTIDOTE
People are always going to need their prescriptions filled, so investors bid up the stock of the larger drugmakers to hedge against any downturn

ALSE TIDE? For the 12 months ending Feb. 29, however, alost everyone enjoyed a playday. Strong fundamentals had a ig role: Corporate America continued to reap the benefits of arlier restructuring, as constant attention to costs left many far better fighting shape than ever before. And with inflaon at just 2.7%, short-term rates were cut from 6% in ear- 1995 to 5.25% in January. The result: Companies churned ut high-powered earnings even as the economy slipped into lower gear. And the ebbing of inflation fears left investors willing to pay more for a dollar of earnings than they once were. "What 1995 said—when we marked stock values up—was that we've won the war against inflation," says David G. Shulman, chief equity strategist at Salomon Brothers.

But supply and demand also had a lot to do with the market's rise. As millions of baby boomers plan for retirement, individual investors are throwing oceans of dollars into equities. Last year, $128.2 billion flooded into stock mutual funds alone. At the same time, mergers and share buybacks are eliminating record levels of equity. Even the initial-public-offering market couldn't make up the difference. According to Securities Data Co., companies planned to retire $3.23 of stock for every $1 of new stock issued in 1995; for the first two months of 1996, the ratio hit $6-to-$1. So more money is chasing less stock. "You've got this huge river of money run-

THE TOP 15 IN PROFITS

RANK	COMPANY	1995 PROFIT TO BILLIONS OF DOLLARS	PERCENT CHANGE FROM A YEAR AGO
1	GENERAL MOTORS	$6.9	23%
2	GENERAL ELECTRIC	6.6	11
3	EXXON	6.5	27
4	PHILIP MORRIS	5.5	16
5	IBM	4.2	38
6	FORD	4.1	–22
7	INTEL	3.6	56
8	CITICORP	3.5	1
9	MERCK	3.3	11
10	DUPONT	3.3	21
11	COCA-COLA	3.0	17
12	PROCTER & GAMBLE	2.8	17
13	WAL-MART STORES	2.7	2
14	BANKAMERICA	2.7	22
15	HEWLETT-PACKARD	2.6	43

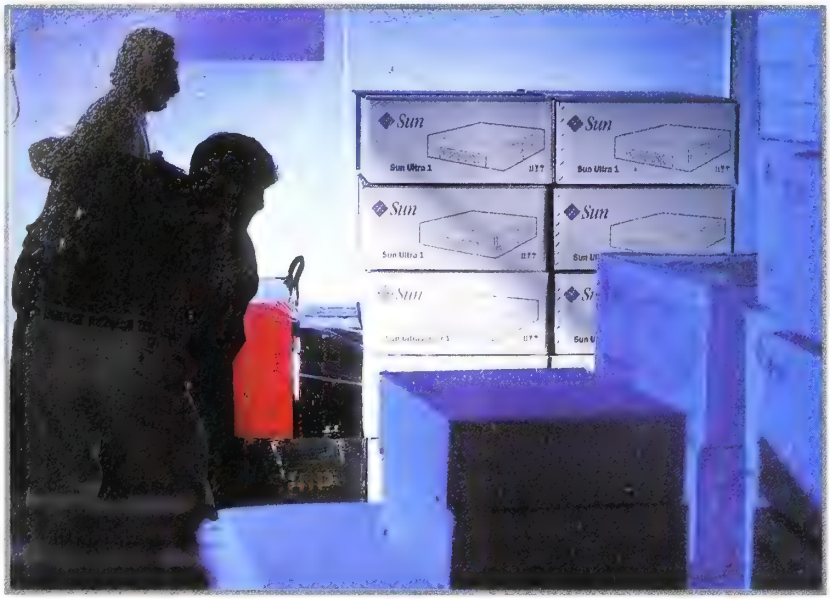
THE TOP 15 IN ASSETS

RANK	COMPANY	1995 ASSETS BILLIONS OF DOLLARS	PERCENT CHANGE FROM A YEAR AGO
1	FANNIE MAE	$316.6	16%
2	CITICORP	256.9	3
3	FORD	243.3	11
4	BANKAMERICA	232.4	8
5	GENERAL ELECTRIC	228.0	23
6	GENERAL MOTORS	217.1	9
7	NATIONSBANK	187.3	10
8	MERRILL LYNCH	185.5	10
9	J.P. MORGAN	184.9	19
10	CHEMICAL BANKING	182.9	7
11	SALOMON	162.6	3
12	MORGAN STANLEY GROUP	143.8	23
13	FED. HOME LOAN	137.2	29
14	AMERICAN INTL. GROUP	134.0	17
15	FIRST UNION	131.9	71

DATA: [illegible]

ning to the market, no matter what's happening to the economy," says Randell E. Moore, executive editor of *Blue Chip Economic Indicators*, a newsletter in Alexandria, Va.

In many cases, the resulting stock gains seemed extraordinarily lavish. Philip Morris Cos., for example, saw its 16% profit rise, to $5.5 billion, rewarded with a 60% leap in market value, to $83 billion. Companies practically had to lose their shirts in order to lose market value. Or they had to be once infallible corporate deities that suddenly revealed themselves as merely mortal—as in the cases of Wal-Mart Stores Inc. and Motorola Inc. These were the only two market-value losers among the top 50.



SMALL WORLD
As the globe i wired for computer net works, the hig end market fo servers and engineering workstations has excellent long-term prospects

One measure of how easy investors were to please: To get a 1% gain in market value over the past 12 months, companies had to boost profits a mere 0.43%. That contrasted sharply with the prior year, when profits had to grow 6.8% to win the same uptick.

The question now: Where do we go from here? For much of last year, the U.S. economy was clearly slowing. Gross domestic product grew just 1.4% in 1995—the slowest rate in five years—and this year growth should be a sluggish 1.9%. Pricing remains stagnant, and nonfarm productivity fell 0.5% in 1995's fourth quarter. Consumer spending also dropped in January for the first time since 1992. Meanwhile, capital-spending growth should slow to under 5% from 9.9% in 1995, says Allen L. Sinai, chief economist at Lehman Brothers Inc.

Still, some surprisingly strong signs of recent vigor have roiled the markets. After months of anemic growth, same-store retail sales rose 5% in February. And after strong employment numbers came out on Mar. 8, Wall Street, fearful that interest-rate cuts were coming to an end, sent the Dow Jones Industrial Average tumbling 3%. But mutual-fund investors didn't stampede, and much of the drop was recovered in the days that followed.

With Wall Street unsure of where it wants to go, the only thing corporate onlookers agree on is that 1995's market gains won't be easily duplicated. Last year was "an incredible period," says Sanford I. Weill, CEO of insurance giant Travelers Inc. Fueled by its planned $4 billion acquisition of Aetna's property and casualty unit, Travelers' market value ran up 72%, to $21.1 billion. "We all know this won't go on forever," he says.

Weill has a point. For one thing, many of the productivity gains brought by cost-cutting are star to level off. And with layoffs becoming less politically pa able, companies could face increasing pressure to hold on further downsizing. Also, while many companies count export growth to bolster them as the U.S. slows, economies of Japan, Mexico, and Europe remain weak.

NO MERCY. Given the confusion, it's hardly surprising inves have itchy trigger fingers. In a market this jittery, compa that stumble are quickly left in the dust. The newly discr nating market has one dictum: Shoot the stragglers.

A case in point is once revered Motorola, whose st plunged 19% on the January day it announced that fou quarter earnings would drop 16% after 16 straight quar ly gains. Although Motorola's 1995 profits rose a respect 14% and CEO Gary L. Tooker insists that "opportuni have probably never been better," it wasn't enough. W sales growth of cellular phones semiconductors slowing, investors h up. Motorola's market value fell 5% $32.1 billion.

The message: Unlike last year, c panies won't get any slack from the m ket. "Last year was a no-brainer," s Sinai. "This year it's tougher; it's n dart-throwing game."

Investors increasingly are conc trating on companies that have pro they can withstand a downturn. Cla cyclicals, such as steel, paper, and fo products, were among the few to market value fall last year, while mo continues to pour into those compa with a strong record of churning earnings gains. From traditionally fensive" consumer or technology sto to well-run industrial giants, invest continue to pay for performance.

That's clearly the case with Gen Electric Co., which retained its N spot as America's most valuable com ny. With its market capitalization 35%, to $125.8 billion—a phenomenal billion rise—GE also boasted the bigg

THE BIG MARKET-VALUE GAINERS...

COMPANY	MARKET VALUE	DIFFERENCE FROM LAST YEAR
	MILLIONS OF DOLLARS	
GENERAL ELECTRIC	$125,822	$32,420
COCA-COLA	101,123	30,947
PHILIP MORRIS	82,751	30,940
MERCK	81,613	28,736
IBM	68,463	24,238
JOHNSON & JOHNSON	60,564	24,074
HEWLETT-PACKARD	51,378	22,043
MICROSOFT	58,225	21,622
AT&T	101,217	20,217
EXXON	98,723	19,390
PEPSICO	49,841	18,936
CISCO SYSTEMS	26,255	17,173
BERKSHIRE HATHAWAY	42,387	16,147
PFIZER	41,907	15,826
CITICORP	33,329	15,550

DATA: STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK

erall dollar gain in market value. Al-
ugh profits were up only 11%, to $6.6
ion on a 17% sales rise, investors are
ting on CEO John F. Welch Jr.'s abili-
to serve up steady double-digit gains.
d with 38% of revenues now coming
m financial services and 38% from
erseas, GE is no longer as cyclically
sitive as it once was.

Technology is another sector that has
far been treated as if it's immune to
business cycle. Last year's Internet
plosion fueled the continued spread
computer equipment throughout
nes and offices. So even though many
h stocks have sagged from their au-
nn highs, the computer software and
vices sector was last year's biggest
rket-value gainer. Computer hard-
re makers were hot, too. IBM soared
nks to high demand for—surprise!—
inframe computers, which are enjoy-
a resurgence in computer networks.
th profits up 38%, to $4.2 billion, on a
% sales gain, IBM's market value rose
%, to $68.5 billion. And because of
ong sales of PCs, printers, and powerful servers, Hewlett-
ckard Co.'s profits rose 43%, to $2.6 billion, with sales up
%. That sent HP's market value up 75%, to $51.4 billion.

Still, that was nothing compared with Sun Microsystems
. Its leadership of the high-end market for servers and en-
eering workstations boosted earnings 75%, to $447 million,
sales up 20%, to $6.4 billion. With 40% profit growth ex-
ted in 1996 and its Java software the language of choice
Net-based programming, Sun's market value rocketed
%, to $9.6 billion. Says Chief Financial Officer Michael E.
nman: "It's still very hard to find other markets that have
attractive a long-term outlook."

Elsewhere, though, there are warning signs that tech's
wth is slowing. Recent profit disappointments from Intel
d price cuts from Compaq Computer Corp. have created
rs that the sector could harbor "cyclicals hiding in growth
thing," as Richard Bernstein, head of quantitative research
Merrill Lynch & Co., sees it. Demand for PCs is slowing,
d a slew of chip factories under construction could bring a
t. Intel is projecting first-quarter sales even with its slug-
h fourth quarter, the first time that's happened in seven
rs. As a result, al-
ugh Intel's market
ue is up 47%, to
3.3 billion, that's
wn 30% from its
5 high.

There were no
h signs of worry
the drug industry,
other top per-
mer. As fears of
alth-care reform
ed, players such
Johnson & John-
n and Pfizer Inc.
n healthy runups
market value. Wall
eet realized that
move to managed
e hasn't irrepara-
harmed profit
rgins—and that

...AND THE MARKET-VALUE LOSERS

COMPANY	MARKET VALUE	DIFFERENCE FROM LAST YEAR
	MILLIONS OF DOLLARS	
WAL-MART STORES	$48,705	–$5,849
NOVELL	4,528	–3,126
US WEST COMMUNS. GROUP*	15,451	–2,736
KMART	3,216	–2,632
MOTOROLA	32,083	–1,727
VIACOM	14,483	–1,568
APPLE COMPUTER	3,386	–1,350
FREEPORT-McMORAN*	1,182	–1,287
TOYS 'R' US	6,520	–1,279
NIAGARA MOHAWK POWER	1,082	–1,046
GEORGIA-PACIFIC	5,763	–1,010
REEBOK INTERNATIONAL	1,973	–992
SUN	2,185	–929
JEFFERSON SMURFIT	1,263	–916
SILICON GRAPHICS	4,063	–905

*SPECIAL TRANSACTION IN 1995 DATA: STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK

drugs will still be needed in a slowdown. The biggest winner was Merck, which saw its market value rise 54%, to $81.6 million. Continued high spending on research allowed it to introduce a record six new drugs last year. "Investors see that Merck is at the beginning of a cycle of exciting new-product introductions," says CEO Raymond V. Gilmartin.

ENTRENCHED PRICES. Price increases helped, too: Wholesale prices for brand-name drugs rose about 3.3% last year, according to tracking service IMS America. But few other industries enjoyed that luxury. At Gillette Co., consumers—and increasingly, big retailers—are resisting price hikes. Although the company has seen no signs of a slowdown, "we're definitely more cautious about price increases today," says CFO Thomas F. Skelly. Instead, Gillette keeps momentum up with a steady stream of higher-margin new products for U.S. buyers while extending the life of older goods in fast-growing foreign markets such as Eastern Europe and Asia. Today, Gillette launches 20 new products annually—double the rate five years ago—and 70% of its sales come from abroad. That's why profits rose 18%, to $824 million, on a 12% sales gain, winning Gillette a 38% hike in value.

At McDonald's Corp., too, the answer to slow U.S. growth and sluggish pricing has been to boost its 42% share of the hamburger fast-food market. The company opened 1,130 U.S. restaurants in 1995, up from 188 in 1991, and plans another 1,000-plus by 1997. It's pushing into new territory, sharing buildings with new Wal-Mart stores and Amoco gas stations, for example. "If we don't build the restaurant, somebody else will," says McDonald's Vice-Chairman Jack M. Greenburg. And by sticking to a few standard designs, McDonald's has cut construction costs by about 50% since 1990. Such frugality helped it turn in high double-digit growth in sales and earnings—and sent market value up 52%, to $35 billion.

But for many others, the slower economy in 1996 will make life far tougher. With demand flattening and rebates on the rise, auto makers face a rugged year. To avoid the drubbing they took during the 1991 downturn—and to insure that research and development won't be sacrificed when sales

MAMA, POR FAVOR
With markets saturated at home, many American retailers are finding out that the only way to grow is to cross a border or two

dry up—they're continuing to ratchet down spending and hoard cash. That's why Chrysler Chairman and CEO Robert J. Eaton fought so hard against raider Kirk Kerkorian to hang on to his company's $7.5 billion cash pile. Chrysler needs to spend $22 billion by 2000 developing new models.

TRIAL BY FIRE. At Ford, the biggest challenge is slashing global product-development costs. Although Ford's fixed costs have already fallen sharply, its sky-high design and development costs have pushed up new-car prices. So over the next five years, Chairman Alexander J. Trotman aims to trim development costs by $11 billion. He's ending the pricey practice of designing entirely distinct cars for the U. S. and Europe, and he's consolidating global suppliers. But with Ford's margins suffering, will the cuts come soon enough? Although its market value rose 36%, Ford's stock has been treading water since July. "What our critics are looking for," says Trotman, "is evidence we can go through a downturn."

It's not just Ford. Throughout the economy, shareholders continued the pressure to root out hidden costs. Wal-Mart, unable to maintain its once torrid growth, is squeezing pennies. Although store remodeling continues apace, Wal-Mart no longer replaces all floor and ceiling tiles or the phone and security systems, cutting its remodeling costs by about two-thirds and freeing up cash to remodel more stores. Also, with a 43% share of the U. S discount-store market, Wal-Mart hopes to increase sales abroad. It's putting down stakes in Asia, Canada, and Mexico, among others, in hopes of jump-starting growth. But the moves have yet to pay off: It earned just $2.7 billion, a 2% gain, on sales up 13%, to $93.6 billion. That dropped its market value 11%, or $5.8 billion, to $48.7 billion—the biggest fall among all U. S. companies.

If Wal-Mart's efforts to grow got a raspberry from investors, companies that consolidated won their applause. Mergers and acquisitions hit record levels as companies frantically married in search of scale—then looked for fat to cut.

Nowhere has that been more true than in the merger of Lockheed Corp. and Martin Marietta Corp., which formed the biggest player by far to emerge from the defense industry's consolidation wave. Barely 10 months after closing their merger in March, 1995, the two announce plans to swallow most of electronics specialist Loral Corp. a well. The moves will assure the new $30 billion behemoth far larger share of the shrinking defense pie—and fast and fu rious cuts. Even without Loral, Lockheed Martin figures it ca pare $6 billion in costs by the year 2000; by the end of thi year alone, 12,000 jobs will be gone. Vice-President John E Montague figures combined buying power should help squeez savings from the $15 billion spent annually. "If you can cu

GOOD THINGS IN SMALL PACKAGES

A few years back, cellular phone services had their day as Wall Street's darlings. Next came drugmakers, then biotech startups. Now, it's the turn of all those companies crowding onto the Information Superhighway. The much-hyped Internet and telecommunications industries dominate this year's roster of Little Giants—public companies with small sales but great expectations. Despite having revenues under $150 million, these tiny dynamos boast market values strong enough to have earned them a spot on BUSINESS WEEK's ranking of America's most valuable companies.

Leading the way is aptly named Ascend Communications Inc. The Alameda (Calif.) company, which went public in May, 1994, makes the high-speed digital switching equipment that allows scattered employees to dial into a computer network at the home office. With corporations across America installing networks faster than you can say IPO, Ascend is soaring. For the year ending Feb. 29, its market value rose 665%, to a lofty $5 billion, making it bigger than Rohm & Haas, Quaker Oats, or Amerada Hess.

As if that weren't enough, Ascend also sells the switches that enable Internet access providers to hook up companies and online services to the Net. So no matter which online companies win the war over Internet access, Ascend will sell to them. "They're in all the hot areas," says analyst Terrence L. McCrary of Auerbach Pollak & Richardson Inc. in Stamford, Conn. Analysts expect earnings to rise 50%, to $60 million for 1996, on sales up 113%, to $320 million.

SPEED BUMPS. Then there's this year's phenom, Netscape Communications Corp., maker of the most popular browser for surfing the World Wi Web. Its stock galvanized the mar last August and kept rising until ruary, when Microsoft Corp.'s rele a competing browser sent Netscap shares spiraling downward. Even market value gained 76%, to $4 b

There's good reason to beli the startup can compet Thanks to its recen upgraded Navig browser, big to Corporate America, and with America line Inc. and puServe Inc. Netscape's sh the wide-ope market is inc ing. Now, all to do is make ey: Analysts pect it to tur $15 million p its first—in 1 Not too fa

SKID CONTROL? Investors worry that Detroit, beset with a slowing market, rebate pressure, and the need for further cost-cutting, may have trouble weathering a slowdown

rices by 5%, that's 750 million bucks right there," he says.

Much of the financial-services sector is also counting on nergers to keep earnings moving forward. Such giants as irst Union and First Fidelity, Wells Fargo and First Intertate Bancorp, and Chase Manhattan and Chemical Bank oined, creating banks with vast geographic reach—and lots of ayoffs. To make their deals pay off, Wells Fargo, Chemical, nd Chase need to shut branches and combine operations. But ith little overlap at First Union Corp., Vice-Chairman John R. Georgius expects few layoffs; the biggest gains should come from ramping up First Fidelity's fee-based income—now just 25% of revenues—to the 35% garnered by First Union.

Not all banks had to merge to be appreciated by shareholders. At BankAmerica Corp., CEO David A. Coulter has no plans to jump into the fray. Skeptical of mergers, he's more worried that technology and growing inroads by nonbanks are making the competitive environment murky. Instead, plans to buy back $3 billion in the bank's stock have helped send market value up 47%, to $26 billion. Cross-country rival Citicorp, too, figured the best place to put its money was the stock market. In January, Citicorp lifted its stock buyback program by $1.5 billion over the next two years, for a total of $4.5 billion. That, together with signs that Citicorp's five-year turnaround efforts are finally taking hold, sent its value up a stunning 87%, to $33.3 billion.

FOREIGN ADVENTURE. Others not only shunned the merger game, but also split themselves up. Spin-offs provided a surprising number of newcomers to the BUSINESS WEEK 1000 list (page 98). The year's biggest breakup, of course, was AT&T's planned three-way split. That move played a big role in propelling AT&T's value up 25%, to $101.2 billion.

Meanwhile, though, investors continued to back those few conglomerates that have proved they work. One such stalwart is AlliedSignal Inc. Its CEO, Lawrence A. Bossidy, intends to keep it a conglomerate of 15 industrial businesses. "When the economy's up, the pure plays are of more interest," Bossidy says. "When the economy slows, diversity is of more interest." Still, Allied's lines are constantly winnowed: Witness the recent $1.5 billion sale of Allied's small, marginally profitable automobile brake businesses. The proceeds will be invested where returns are stronger. After four years of solid earnings growth, the market bid Allied's value up 47%, to $15.7 billion.

Some BUSINESS WEEK 1000 leaders, such as Coca-Cola Co.,

re PanAmSat and Tele-Comations Interna- Inc. (TINTA), two nies racing to television proning around the Short on cash international John C. Malone, parent Teleunications Inc., ff 17% of TINTA ar. His goal: to complete teleackages—phone e, cable TV, et access—to ies where pene- rates for many ervices are far than in the U. S. "We can get sigt revenues from South America from the United Kingdom tomornd Japan the day after," says Singer, TINTA's president. Al- its Jupiter joint venture with Suo Corp. has nearly 1 million subrs in Japan and expects to triple ithin the year. Merrill Lynch & alyst Jessica Reif estimates that s revenues will grow 52%, to $267 million, though losses will double, to $33.7 million.

Another intriguing pair of Little Giants: Thermo Cardiosystems Inc. and Thermolase Corp., both spin-offs from Thermo Electron Corp. The parent's strategy is to encourage employees to develop products and then help them take the new company public while retaining a majority stake. Thermo Cardiosystems, for example, makes a heart-implant device for desperately ill patients who can't get a transplant, while Thermolase has turned a laser designed for military use into a product that removes unwanted hair.

GOOD CLASS. Just what does it mean to be a Little Giant? Quite a bit, it turns out. Take a look at the 19 companies that made up the class of 1986: Only six have dropped off the BUSINESS WEEK 1000 altogether, while six graduated from the Little Giants list. Another seven were bought by larger companies. Among the success stories: Genentech Inc., the San Francisco biotech company, and Medco Containment Services Inc., bought by Merck & Co. in 1993 for $6 billion. That's encouraging news for investors. The real challenge, of course, is figuring out which among this year's list will be tomorrow's busts—and which will be tomorrow's behemoths.

By David Leonhardt in New York

THE LITTLE GIANTS

*Companies with high market values and sales below $150 million**

COMPANY	MARKET VALUE (MILLIONS OF DOLLARS)	1995 SALES (MILLIONS OF DOLLARS)
ASCEND COMMUNS.	$4,965	$150
NETSCAPE COMMUNS.	3,974	81
PANAMSAT	2,988	116
FORE SYSTEMS	2,928	145
CASCADE COMMUNS.	2,843	135
TELE-COMMUNS. INTL.	2,541	124
BIOGEN	2,321	135
C-CUBE MICROSYSTEMS	2,265	125
THERMO CARDIOSYSTEMS	1,789	19
TRITON ENERGY	1,782	107
CENTOCOR	1,705	79
PRESSTEK	$1,534	$28
MACROMEDIA	1,419	97
WESCO FINANCIAL	1,283	112
McAFEE ASSOCIATES	1,075	90
THERMOLASE	1,047	25
SHIVA	1,026	118
CONCORD EFS	1,005	128
INTERNEURON	992	9
UUNET TECHNOLOGIES	962	94
DAVIDSON & ASSOCIATES	947	147
PIXAR	925	12

*EXCLUDES REAL ESTATE INVESTMENT TRUSTS

DATA: STANDARD & POOR'S COMPUSTAT

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are a lot less dependent on the U.S. economy. Coke now gets about 80% of its operating income from overseas. "The labels 'international' and 'domestic' no longer apply to Coke," says Chairman Roberto C. Goizueta. Also looking abroad is Toys 'R' Us Inc. One of the biggest losers for the second year in a row, its market value fell 16%, to $6.5 billion. The retailer has been unable to halt its sliding U.S. market share, as everyone from Wal-Mart to Disney has horned in on its turf. It now counts on expanding in foreign markets "where there is no dominant toy or juvenile retailer," says Gregory R. Staley, president of the company's international division. That w help, but it's not a panacea: The foreign operations of Toys 'R Us aren't as profitable. Look for another tough year here.

And elsewhere. Across the U.S. economy, companies w be facing a less-forgiving investor. As the market continues mercilessly separate the grown-ups from the kids, those wi growing pains won't be treated very gently.

By Jennifer Reingold in New York, with Joseph Web in Philadelphia, Robert D. Hof in San Francisco, and bure reports

THE YEAR OF THE NEWBIE

It's not too often new companies muscle their way into the ranks of the BUSINESS WEEK 1000 in the first year of going public. But thanks to Corporate America's ongoing restructuring, this year's roll sports a large crop of well-placed newcomers. Between spin-offs, split-ups, and IPOs, more than three dozen newly public companies have begun life nestled among America's most valued.

Spin-offs were the key factor. To admiring glances from Wall Street, plenty of companies trimmed down to svelter, more profitable versions of themselves last year. Their spin-offs reached a record market value of $47.9 billion in 1995—double the previous year's volume—according to J.P. Morgan Securities Inc. Already in 1996, spin-offs worth an additional $70 billion are pending, and the frenzy isn't over. "This year promises to be a bonanza for these restructurings," says Barbara Goodstein, a senior vice-president at Rothschild Inc.

IN FOCUS. The dismantling of the old ITT Corp. was typical. Once America's most diffuse conglomerate, the company—No. 82 in 1995—split into three in December. ITT Industries, now No. 393, kept the auto parts, defense electronics, and fluid technology businesses. Insurance now comes under ITT Hartford Group Inc.'s umbrella, at No. 214. And ITT's controversial CEO, Rand Araskog, kept the fun for himself: He heads the hotel, casino, and entertainment units under the new ITT Corp., now No. 199.

Shareholders now can invest only in the businesses they think will do well, ending ITT's perennial conglomerate discount. "A spin-off gives you the benefit of focus," says D. Travis Engen, CEO of ITT Industries. "We're now easily understood." The understanding is that the three are worth more apart than together. The old ITT was worth $11.6 billion; now their combined market cap is $15.5 billion.

NEW FOR 1996

Spin-offs, split-ups, and IPOs added 39 companies to this year's BUSINESS WEEK 1000, including the following:

[illegible]	COMPANY	[illegible]
125	U S WEST MEDIA GROUP	$9,860
134	NABISCO HOLDINGS	9,308
214	ITT HARTFORD GROUP	6,031
304	ESTEE LAUDER	4,296
331	CASE	3,795
357	GUIDANT	3,406
393	ITT INDUSTRIES	3,073
416	U.S. SATELLITE BROADCASTING	2,919
585	DARDEN RESTAURANTS	1,968
640	OFFICEMAX	1,769
754	REVLON	1,381
772	PROMUS HOTEL	1,336

DATA: STANDARD & POOR'S COMPUSTAT

U S West, too, had difficulty getting investors to pay a premium for its mix of assets with markedly different prospects. So it opted to offer investors separate shares. Now, its telephone arm lures those seeking steady growth and dividends, while risk-takers can buy into U S West Media Group Inc., which is moving aggressively into cable.

RICH OFFSPRING. To please investors who'd like to see Nabisco in a smoke-free environment, RJR Nabisco Inc. also spun off 19.5% of the food-and-snack subsidiary last year. It worked: Nabisco's publicly held shares now trade without the tobacco discount that weighs down RJR. Apply the same value to the 80.5% of Nabisco that RJR still owns, and Nabisco boasts a higher market value, $9.3 billion, than its parent does at $9.2 billion. Still, dissatisfied investors are pushing for a full Nabisco spin-off.

The soaring market for IPOs was another route for high-ranking newcomers to make it to the BUSINESS WEEK 1000. Now No. 304, cosmetics maker Estée Lauder has seen its market value climb 41% since it went public last fall, to $4.3 billion. Revlon Inc. looks decidedly riskier. Saddled with $1.5 billion in debt left from its hostile takeover by Ronald O. Perelman in 1985, Revlon has not turned a profit since. Nevertheless, its glitzy Feb. 29 IPO, in which supermodels Claudia Schiffer and Cindy Crawford took a much-hyped tour of the New York Stock Exchange, brought a $1.4 billion market value and the No. 754 ranking. New to the market these companies might be, but naive they're not.

By Lori Bongiorno in New York

IT'S HARD TO FIND THE LOSERS

1995 was a year of spectacular gains in market values

n most years, a 20% hike in market value would earn any company the right to celebrate. But in 1995, that wasn't the case. Altogether, the comies on the BUSINESS WEEK 1000 ened a chart-breaking market value n of 35%. Their combined profits rose %, to $308 billion, on sales up 12%, to 9 trillion.

In 1995, the market ve Corporate Amer- a pat on the k—and threw in a ndshake, too. With ss domestic product wth up just 1.4%, estors lauded comies able to flourish a softly landing nomy. The tables t follow provide a tailed look both at w America's most uable companies ed last year and an raisal of their prosts. Since the list nks companies by rket capitalization, a measure of the ure expectations of estors.

LL TOPS. The list o offers many other eful statistics. Bees market value, it tains sales, profits, ets, and earnings share. Stock pric- price-to-earnings ltiples, dividends, al return, and anats' estimates are all re for the perusing. Where do investors the hottest prosts? For the second r in a row, comput- software and ser- es was the top ner among indus- es, adding a stun- g $125 billion in ue. At the fore- nt: Microsoft Corp. Revved up by the launch of Windows 95, both earnings, at $1.8 billion, and sales, at $7.4 billion, rose 41%. The Seattle giant's ability to stay a step ahead, even as the Internet roiled the software market, helped boost its market value 59%, to $58 billion. Other Net gainers included Sun Microsystems Inc., which surged from No. 327 to No. 127, and newcomer Netscape Communications Corp. at No. 323.

Still, not every tech company rode the wave. Once-beloved Novell Inc. and Apple Computer Inc. crashed to earth, losing $3.1 billion and $1.4 billion in market value, respectively. Apple fell from No. 208 to No. 359 on fourth-quarter losses and sliding market share. Novell continued to lose out to Microsoft, falling from No. 122 to No. 287.

There was plenty of hot action in other industries, too. Price increases and strong new products helped drugmakers such as Johnson & Johnson. Its market value soared 66%, to $60.6 billion, as it moved from No. 12 to No. 8. Signs of improvement in PepsiCo Inc.'s long-struggling restaurant operations helped push its market value up 61%, to $50 billion, jumping it from No. 21 to No. 12. Boeing Co.'s market value rose 77%, to $28 billion, moving it from No. 51 to No. 38 as it rang up $31.2 billion in new plane orders. And in the recovering airline industry, shutting money-losing routes sent Continental Airlines Inc's market value up 467%, to $1.3 billion.

Surprises also came from companies that aren't so well known. U. S. Robotics Inc., a maker of modems and related equipment, roared up the list to

Looking At The Record

WHO JOINED THE LIST...

Industries with the most newcomers on the list this year

INDUSTRY	NUMBER
COMPUTER SOFTWARE & SERVICES	9
PETROLEUM SERVICES	6
INSURANCE	5
COMPUTERS & PERIPHERALS	5
TELECOMMUNICATIONS	4
AIRLINES	4
MEDICAL PRODUCTS	3
SEMICONDUCTORS	3
PERSONAL CARE	3
PUBLISHING	3
ELECTRICAL PRODUCTS	3
INDUSTRIAL DISTRIBUTION	3
DRUGS & RESEARCH	2
HOTELS & MOTELS	2

...AND WHO FELL OFF

Industries with the most companies disappearing from the list this year

INDUSTRY	NUMBER
FINANCIAL SERVICES	–6
GENERAL MANUFACTURING	–6
BANKS–EAST	–4
RETAILERS	–3
FOOD PROCESSING	–3
PAPER	–3
AUTO PARTS	–3
TRANSPORTATION SERVICES	–3
ELECTRIC UTILITIES	–2
CHEMICALS	–2
BANKS–MIDWEST	–2
HEALTH-CARE SERVICES	–2
RAILROADS	–2
FOOD RETAILING	–2

WINNERS...

The market values of these industry groups grew the most from last year

INDUSTRY	MARKET VALUE DIFFERENCE MILLIONS OF DOLLARS
SOFTWARE & SERVICES	$124,928
DRUGS & RESEARCH	122,055
COMPUTERS & PERIPHERALS	81,792
INSURANCE	77,595
FINANCIAL SERVICES	59,284
MEDICAL PRODUCTS	57,708
COAL, OIL, GAS	55,962
BEVERAGES	53,035
TELECOMMUNICATIONS	52,879
BANKS–EAST	49,847
TELEPHONE COMPANIES	49,059
CONGLOMERATES	41,913
SEMICONDUCTORS	35,105
TOBACCO	34,532
ELECTRIC UTILITIES	33,121
FOOD PROCESSING	30,886
CHEMICALS	30,628
BANKS–SOUTH & SOUTHEAST	30,192

...AND LOSERS

The market value of these industry groups dropped the most

INDUSTRY	MARKET VALUE DIFFERENCE MILLIONS OF DOLLARS
BROADCASTING	–$13,464
PAPER	–5,284
TRUCKING & SHIPPING	–1,779
TEXTILES	–1,661
FOREST PRODUCTS	–1,151
TRANSPORTATION SERVICES	–1,077
BUSINESS MACHINES & SERVICES	–769
AUTO PARTS	–656
GAS UTILITIES	–654
STEEL	–521

DATA: STANDARD & POOR'S COMPUSTAT

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COMPOSITES

MARKET VALUE (BILLIONS)	$5,775
CHANGE FROM A YEAR AGO	+35%
RETURN ON COMMON EQUITY	15.7%
YEAR AGO	15.4%
RETURN ON INVESTED CAPITAL	11.8%
YEAR AGO	11.0%
SALES (BILLIONS)	$4,878
CHANGE FROM 1994	+12%
PROFITS (BILLIONS)	$308
CHANGE FROM 1994	+15%
ASSETS (BILLIONS)	$11,051
CHANGE FROM 1994	+11%
1995 PROFIT MARGINS	6.3%
1994 PROFIT MARGINS	6.1%

No. 246, with an outstanding 725% run-up in market value, to $5.3 billion. And Republic Industries Inc., the latest vehicle of former Blockbuster Entertainment Group Chief Executive and Chairman H. Wayne Huizenga, entered at No. 532 after the waste collector's market value swelled 2,384%, to $2.2 billion. No. 149, Boston Scientific Corp., was another notable. The value of the company, which makes medical devices, rose 296%, to $8.3 billion, on a series of acquisitions.

LEFT AT HOME. A few companies weren't invited to the party. Investors fled from such cyclical industries as paper, textiles, and forest products. The market value of Georgia-Pacific Corp. dropped 15%, to $5.8 billion, despite the company's 212% profit increase, on economic jitters. Nucor Corp.'s value fell 4%, to $4.7 billion, as declining steel prices appeared to signal that demand was weakening. DuPont Co. and Dow Chemical Co. also were laggards, w measly 11% and 8% gains, respective

Meanwhile, overcapacity and stin consumers gave retailers three of t largest losers of market value: Wal-M Stores, Kmart, and Toys 'R' Us. Yet 1995, these unhappy campers were t exceptions.

By Jennifer Reingold in New Yo with bureau reports

AVERAGES

SHARES OUTSTANDING	128 MIL.	1995 EARNINGS PER SHARE	$2.1
YEAR AGO	115 MIL.	1994 EARNINGS PER SHARE	$2.1
TURNOVER	122.6%	1996 EARNINGS ESTIMATE	$2.7
YEAR AGO	98.4%	VARIATION	7.3
YIELD	1.82%	HELD BY INSTITUTIONS	57
YEAR AGO	2.19%	YEAR AGO	57
PRICE	$78	PAYOUT	31
YEAR AGO	$58	YEAR AGO	40
PRICE-TO-BOOK	333%	PRICE-EARNINGS RATIO	2
YEAR AGO	109%	YEAR AGO	2

DATA. STANDARD & POOR'S COMPUSTAT, I/B/E/S INTERNATIONAL INC., VICKERS STOCK RESEARCH CORP

Glossary

MARKET VALUE
Share price on Feb. 29, 1996, multiplied by latest available common shares outstanding

PROFITS
Net income from continuing operations before extraordinary items

MARGINS
Profits as a percent of sales

RETURN ON INVESTED CAPITAL
Profits plus minority interest and interest expense (adjusted by tax rate) as a percent of debt and equity funds

RETURN ON COMMON EQUITY
Net income available for common shareholders divided by common equity

ASSETS
Total assets as reported at end of company's latest available 1995 quarter

RECENT SHARE PRICE
Price for a single share of a company's most widely traded issue of common stock as of the close of trading Feb. 29, 1996

HIGH/LOW PRICE
Trading range for company's common stock, February, 1995, to February, 1996

BOOK VALUE PER SHARE
Sum of common stock, capital surplus, and retained earnings divided by most recently available common shares outstanding

P-E RATIO
Price-earnings ratio based on 1995 earnings and Feb. 29, 1996 stock price

YIELD
Annual dividend rate as a percent of the Feb. 29 stock price

PAYOUT
Latest annualized dividend rate as a percent of the company's most recent annual earnings per share

TOTAL RETURN
Annual dividend per share plus latest available month-end price, as a percent of year-ago month-end price per share

INSTITUTIONAL HOLDINGS
Percent of outstanding shares of stock held by banks, colleges, pension funds, insurance companies, and investment companies as calculated by Vickers Stock Research Corp.

SHARES OUTSTANDING
Millions of common shares outstanding as of the company's latest available financial report

TURNOVER
Percent of outstanding common shares changing hands in the latest year

EARNINGS PER SHARE
Primary earnings per share, excluding extraordinary profit or loss, divided by number of common and common equivalent shares

EARNINGS PER SHARE ESTIMATES
Analysts' consensus estimates for 1996 compiled as of Feb. 22 by I/B/E/S International Inc., New York (I/B/E/S is a registered trademark of I/B/E/S International Inc.)

VARIATION
Percentage by which two-third of the 1996 earnings estimate are above or below the average estimate calculated by I/B/E/S

FY
Number of the month in which company's fiscal year ends

DATA
Unless otherwise indicated, all data in the following tables have been provided by Standard & Poor's Compustat, a division of The McGraw-Hill Companies

Footnotes

(a) Latest available data. **(b)** Actual and estimated figures are fully diluted. **(c)** Estimated earnings data. **(d)** Earnings data from I/B/E/S. **(e)** Earnings data from S&P ACE. **(x)** Sales include excise taxes. **(y)** Sales include other income. **(z)** Sales include excise taxes and other income. **NA**=not available. **NM**=not meaningful. **NR**=not ranked in BUSINESS WEEK 1000 in 1995. **NEG**=negative book value per share. **DEF**=earnings deficit in dividend payout. † Because BUSINESS WEEK is owned by McGraw-Hill, the BUSINESS WEEK 1000 does not include a forecast of the company's earnings. †† Data do not include full 12 months' results. Note: Data compiled by Standard & Poor's Compustat from sources such as statistical services, registration statements, and company reports that SPC believes to be reliable but that are not guaranteed by SP or BUSINESS WEEK as to correctness or completeness. This materia is not an offer to buy or sell any security. Additional data: I/B/E/S, I/B/E/S International, Vickers Stock Research Corp.

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3

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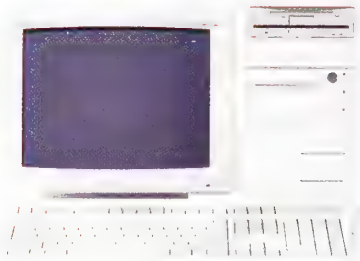

5

Oh well, you tried.

4

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The reseller channel. It's how technology
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OW TECHNOLOGY SELLS

THE BUSINESS WEEK 1000

	COMPANY	MARKET VALUE			SALES		PROFITS						ASSE
					$ MIL	CHANGE	MONTHS	CHANGE FROM 1994	MONTHS 1995	12 1994		ON EQUITY	12 199
1	GENERAL ELECTRIC	125822	35	1	70028y	17	6573.0	11	9.4	9.8	14.1	23.2	2280
2	AT&T	101217	25	2	79609	6	139.0	–97	0.2	6.3	0.7	0.7	872
3	COCA-COLA	101123	44	4	18018	11	2986.0	17	16.6	15.8	51.6	56.7	150
4	EXXON	98723	24	3	109620y	8	6470.0	27	5.9	5.0	NA	16.0	907
5	PHILIP MORRIS	82751	60	7	53139	-1	5478.0	16	10.3	8.8	21.9	39.2	538
6	MERCK	81613	54	6	16681	11	3335.2	11	20.0	20.0	24.6	29.0	224
7	INTERNATIONAL BUSINESS MACHINES	68463	55	9	71940	12	4178.0	38	5.8	4.7	14.2	19.2	775
8	JOHNSON & JOHNSON	60564	66	12	18842	20	2403.0	20	12.8	12.8	22.8	27.0	176
9	MICROSOFT	58225	59	11	7419	41	1838.0	41	24.8	24.8	26.8	29.7	91
10	PROCTER & GAMBLE	56254	23	8	34923	11	2835.0	17	8.1	7.7	19.4	24.4	282
11	HEWLETT-PACKARD	51378	75	23	33503	26	2621.0	43	7.8	6.9	20.8	21.4	257
12	PEPSICO	49841	61	21	30421	7	1606.1	–10	5.3	6.3	12.8	21.4	254
13	WAL-MART STORES	48705	11	5	93627	13	2740.0	2	2.9	3.3	13.4	19.4	378
14	INTEL	48296	47	15	16202	41	3566.0	56	22.0	19.9	31.2	32.1	170
15	AMERICAN INTERNATIONAL GROUP	45937	40	16	23801y	15	2510.4	15	10.5	10.5	NA	13.4	1340
16	MOBIL	43258	26	13	74879z	11	2376.0	35	3.2	2.6	11.7	13.3	428
17	BRISTOL-MYERS SQUIBB	43008	37	19	13767	15	1812.0	–2	13.2	15.4	26.1	28.7	139
18	DUPONT	42496	11	10	42163z	7	3293.0	21	7.8	6.9	26.2	42.0	373
19	BERKSHIRE HATHAWAY	42387	62	28	4277a	7	563.7	–39	13.2	23.1	NA	3.5	299
20	PFIZER	41907	61	29	10021	26	1554.2	22	15.5	16.0	27.5	29.4	128
21	GTE	41586	29	17	19957	2	2538.0	4	12.7	12.5	NA	22.8	370
22	BELLSOUTH	39636	36	24	17886	6	1563.5	–28	8.7	12.8	10.1	13.2	318
23	GENERAL MOTORS	38555	20	18	168829y	9	6932.5	23	4.1	3.7	19.1	29.5	2171
	ELECTRONIC DATA SYSTEMS	27631	49	NR	12422	25	938.9	14	7.6	8.3	15.0	19.7	102
	HUGHES ELECTRONICS	22894	52	NR	14714	5	1107.8	3	7.5	7.7	12.8	12.7	159
24	CHEVRON	36286	17	20	37082z	4	930.0	–45	2.5	4.7	5.9	6.1	343
25	FORD MOTOR	36219	36	27	137137	7	4139.0	–22	3.0	4.1	NA	15.4	2433
26	McDONALD'S	34990	52	33	9795	18	1427.3	17	14.6	14.7	NA	18.9	154
27	FANNIE MAE	34529	64	36	22246y	20	2155.6	1	9.7	11.5	NA	19.7	3165
28	AMOCO	34500	17	22	27066	4	1862.0	4	6.9	6.9	11.4	12.4	299
29	WALT DISNEY	34388	25	26	12628	19	1393.7	14	11.0	11.5	NA	19.6	152
30	SBC COMMUNICATIONS	33441	32	30	12670	8	1889.3	15	14.9	14.0	18.9	30.8	220
31	ELI LILLY	33437	71	38	6764	18	1306.6	10	19.3	20.8	20.1	23.8	142
32	CITICORP	33329	87	43	28128	–3	3464.0	1	12.3	11.8	NA	18.9	2568
33	ABBOTT LABORATORIES	33072	16	25	10012	9	1688.7	11	16.9	16.6	36.8	39.5	90
34	MOTOROLA	32083	–5	14	27037	22	1781.0	14	6.6	7.0	14.4	16.1	228
35	AMERITECH	31915	35	31	13428	7	2007.6	72	15.0	9.3	20.1	26.6	220
36	AMERICAN HOME PRODUCTS	30730	40	35	13376	49	1680.4	10	12.6	17.0	14.5	30.4	217
37	BELL ATLANTIC	28947	24	32	13430	–3	1861.8	33	13.9	10.2	16.5	28.1	241
38	BOEING	27903	77	51	19515	–11	393.0	–54	2.0	3.9	NM	4.0	220
39	MINNESOTA MINING & MFG.	27268	19	34	13460	11	1306.0	8	9.7	9.9	NA	18.0	141
40	CISCO SYSTEMS	26255	189	98	2668	73	633.9	94	23.8	21.2	34.2	35.0	23
41	BANKAMERICA	26181	47	42	19027	24	2664.0	22	14.0	14.2	NA	13.8	2324
42	EASTMAN KODAK	24732	43	45	14980	11	1252.0	126	8.4	4.1	24.1	26.3	144
43	GILLETTE	24057	38	44	6795	12	823.5	18	12.1	11.5	28.9	34.7	63
44	COLUMBIA/HCA HEALTHCARE	23582	57	53	17695	22	1064.0	15	6.0	6.4	NA	15.7	182
45	ORACLE	22636	68	62	3479	46	477.1	41	13.7	14.3	30.9	32.6	25
46	AMERICAN EXPRESS	22162	33	47	15841y	11	1564.0	13	9.9	9.7	17.7	21.4	1074
47	NYNEX	22105	33	48	13407	1	1069.5	35	8.0	6.0	11.3	17.9	256
48	CHRYSLER	21327	38	52	53200y	2	2121.0	–43	4.0	7.1	13.1	19.2	537
49	PHARMACIA & UPJOHN	21215	NM	157	7095	4	738.7	–12	10.4	12.2	24.4	29.7	114
50	TRAVELERS GROUP	21146	72	70	17624y	–5	1631.9	24	9.3	7.2	14.1	13.8	1144

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

N	2-MONTH HIGH/LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	DIVIDENDS YIELD %	PAYOUT %	TOTAL RETURN %	SHARES INSTITUTIONS HOLDING %	SHRS. OUT. MIL.	TURNOVER %	FY	EARNINGS PER SHARE 1994 ACTUAL $	1995 ACTUAL $	ANALYSTS' ESTIMATES 1996 EST $	VARIATION %	INDUSTRY GROUP
	31/52	445	19	2.44	47	41	52	1667	32.1	12	3.46	3.90	4.35	1.2	Conglomerates
	59/48	499	NM	2.07	1467	26	39	1591	45.0	12	3.01	0.09	3.95	2.0	Telecommunications
	84/55	1920	34	1.09	37	48	52	1252	32.4	12	1.98	2.37	2.79	1.1	Consumer products
	36/63	247	15	3.77	58	29	41	1242	27.2	12	4.07	5.18	5.18	3.9	Fuel
	92/60	592	15	4.04	61	69	62	836	58.9	12	5.45	6.51	7.59	1.2	Consumer products
	71/41	709	25	2.05	50	59	51	1232	54.6	12	2.38	2.70	3.10	1.6	Health care
	29/75	320	17	0.82	14	64	51	558	158.9	12	5.02	7.23	12.44	4.3	Computers
	00/56	680	25	1.41	35	67	60	648	44.1	12	3.12	3.72	4.23	1.2	Health care
	09/63	942	43	0.00	0	57	34	590	220.9	06	1.88	2.32	3.30	2.1	Software/services
	91/65	503	22	1.95	43	26	48	686	36.0	06	3.09	3.71	4.29	1.6	Consumer products
	94/57	420	22	0.79	17	77	58	510	93.5	10	3.07	4.63	5.76	3.5	Computers
	56/38	665	32	1.26	40	64	60	788	56.0	12	2.22	2.00	2.84	1.4	Consumer products
	28/19	346	18	0.94	17	–10	32	2292	38.9	01	1.17	1.19	1.38	3.6	Retailing
	78/39	434	15	0.27	4	48	62	821	342.9	12	2.62	4.03	4.44	3.8	Electrical & electronics
	93/67	245	18	0.35	6	40	54	474	39.8	12	4.58	5.30	5.82	1.4	Nonbank financial
	18/87	248	19	3.38	63	30	53	395	49.3	12	4.28	5.87	7.36	4.6	Fuel
	90/61	681	24	3.52	84	42	52	505	49.2	12	3.62	3.58	5.53	1.3	Health care
	81/55	543	14	2.72	37	40	59	556	62.9	12	4.00	5.61	6.35	3.9	Chemicals
	00/21500	262	72	0.00	0	59	16	1	4.0	12	420.00	NA	NA	NA	Nonbank financial
	71/40	794	27	1.82	49	61	65	636	60.5	12	2.10	2.47	2.92	1.7	Health care
	59/32	375	16	4.38	72	34	41	970	36.7	12	2.55	2.62	2.84	2.1	Telecommunications
	46/28	335	25	3.61	92	40	30	994	25.6	12	2.18	1.57	2.45	1.6	Telecommunications
	55/39	169	7	3.12	22	23	59	752	78.8	12	6.20	7.28	6.81	13.8	Automotive
	58/38	579	29	1.05	31	50	38	484	42.9	12	1.71	1.96	2.27	0.9	Software/services
	59/37	273	21	1.68	36	55	17	400	24.6	12	2.70	2.70	2.95	1.7	Electrical & electronics
	59/44	240	39	3.60	140	21	46	652	39.7	12	2.60	1.43	3.39	5.9	Fuel
	33/25	145	9	4.48	42	25	41	1159	75.3	12	4.44b	3.33	3.11	18.0	Automotive
	54/33	477	25	0.54	14	51	56	700	57.2	12	1.68	1.97	2.26	1.8	Leisure
	36/18	315	16	2.40	39	68	85	1092	79.2	12	1.95	1.96	2.46	1.2	Nonbank financial
	73/59	229	18	3.74	69	21	59	496	41.4	12	3.60	3.76	4.84	5.6	Fuel
	56/51	483	25	0.55	14	23	48	525	66.3	09	2.04	2.60	2.62	5.3	Leisure
	50/40	545	18	3.01	53	36	36	609	27.5	12	2.74	3.10	3.41	1.2	Telecommunications
	55/33	609	26	2.26	60	85	68	552	60.2	12	2.05	2.30	2.64	2.7	Health care
	30/40	202	12	2.31	28	76	72	427	129.5	12	6.40b	6.48	7.29	3.8	Banks
	45/35	773	20	2.01	40	20	50	792	45.5	12	1.87	2.12	2.37	1.3	Health care
	33/45	290	19	0.74	14	–5	62	591	157.3	12	2.66	2.93	3.12	9.0	Electrical & electronics
	67/41	455	16	3.68	58	39	37	554	27.0	12	2.13	3.63	3.72	2.2	Telecommunications
	04/71	556	18	3.12	57	42	64	312	45.2	12	4.97	5.42	5.70	2.1	Health care
	75/51	437	16	4.23	66	29	33	438	29.2	12	3.21	4.25	4.18	1.0	Telecommunications
	35/46	285	71	1.23	87	78	59	344	84.5	12	2.51	1.15	2.83	6.7	Aerospace & defense
	70/53	375	21	2.89	60	22	66	419	48.5	12	3.13	3.11	3.73	3.2	Manufacturing
	61/16	1449	63	0.00	0	181	41	553	483.0	07	0.60	0.76	1.37	0.7	Software/services
	73/46	149	11	3.03	33	52	61	367	90.2	12	5.33b	6.45	7.11	2.3	Banks
	78/50	520	19	2.24	44	43	59	346	74.9	12	1.65	3.67	4.27	3.3	Leisure
	58/39	1021	29	1.11	32	39	69	444	49.5	12	1.57	1.85	2.15	0.9	Consumer products
	58/38	349	23	0.22	5	32	67	431	64.2	12	2.13	2.37	3.37	0.9	Health care
	55/28	1549	37	0.00	0	66	58	435	213.4	05	1.00	1.41d	1.88	4.8	Software/services
	48/32	306	15	1.96	29	39	67	483	75.0	12	2.68	3.11	3.53	2.0	Nonbank financial
	59/38	369	21	4.58	94	37	40	429	40.2	12	1.89	2.50	3.53	1.7	Telecommunications
	59/38	195	11	4.26	45	35	59	378	154.7	12	9.10b	5.35	7.69	12.7	Automotive
	44/24	854	29	2.58	76	77	39	507	66.3	12	1.90	1.43	2.08	4.8	Health care
	71/37	210	14	1.35	18	75	73	316	58.4	12	3.86	4.88	5.51	4.0	Nonbank financial

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN ON INVESTED CAPITAL	RETURN ON EQUITY	ASS
		$M			12 MONTHS $M	1994	12 MONTHS $M	CHANGE FROM 1994	12 MONTHS 1995	12 MONTHS 1994			MON $M
51	TEXACO	20741	25	49	36792y	10	728.0	–26	2.0	2.9	6.9	7.1	25
52	HOME DEPOT	20621	1	37	15470	24	731.5	21	4.7	4.8	14.3	15.2	7
53	SCHERING-PLOUGH	20441	40	57	5104	13	1053.0	14	20.6	20.4	59.1	62.1	4
54	NATIONSBANK	20227	47	58	15938y	23	1950.0	15	12.2	13.1	NA	16.3	187
55	DOW CHEMICAL	20139	8	39	20200y	21	1891.0	145	9.4	4.6	15.5	24.3	23
56	MCI COMMUNICATIONS	19919	46	60	15265	14	548.0	–31	3.6	6.0	5.3	5.7	19
57	ALLSTATE	19187	55	69	22793	8	1903.5	293	8.4	2.3	15.3	16.4	70
58	CHEMICAL BANKING	17942	83	85	14884y	17	1805.0	39	12.1	10.2	NA	16.0	182
59	SCHLUMBERGER	17719	29	59	7622	14	649.2	21	8.5	8.0	13.6	13.3	8
60	SEARS, ROEBUCK	17718	2	46	34925	6	1025.0	20	2.9	2.6	NA	25.1	33
61	ATLANTIC RICHFIELD	17611	0	41	15819	5	1376.0	50	8.7	6.1	14.6	20.3	23
62	EMERSON ELECTRIC	17452	18	54	10294	16	934.8	12	9.1	9.4	18.6	18.7	9
63	TELE-COMMUNICATIONS	17230	31	66	6454a	44	–100.0	NM	NM	0.9	NM	–2.8	24
64	ANHEUSER-BUSCH	17135	18	56	10341	3	886.6	–13	8.6	10.1	12.9	18.5	11
65	FIRST UNION	16810	114	117	9302	19	1430.2	4	15.4	17.6	13.5	15.8	131
66	COMPUTER ASSOCIATES INTERNATIONAL	16633	82	94	3196	30	–108.6	NM	NM	15.4	NM	–8.9	4
67	TIME WARNER	16561	13	55	8067	9	–124.0	NM	NM	NM	NM	–4.8	21
68	KELLOGG	16361	37	72	7004	7	490.3	31	7.0	10.8	20.5	26.3	4
69	SOUTHERN	15996	18	63	9179	11	1191.0	11	13.0	13.0	8.6	12.7	30
70	AMGEN	15876	74	93	1940	18	537.7	68	27.7	19.4	29.6	32.2	2
71	ALLIEDSIGNAL	15729	47	77	14346	12	875.0	15	6.1	5.9	20.0	24.4	12
72	SARA LEE	15671	24	68	18335	10	856.0	229	4.7	1.6	14.4	19.5	12
73	MONSANTO	15549	76	97	8962	8	739.0	19	8.2	7.5	16.3	20.4	10
74	FIRST DATA	15464	167	165	4081	35	–84.2	NM	NM	11.9	–2.5	–4.6	11
75	US WEST COMMUNICATIONS GROUP	15451	–15	40	9484	3	1184.0	3	12.5	12.5	15.9	34.1	16
76	CAMPBELL SOUP	15372	36	75	7581	10	746.0	8	9.8	10.0	24.3	27.3	6
77	AIRTOUCH COMMUNICATIONS	15351	15	64	1590	29	131.9	34	8.3	7.9	3.7	3.5	5
78	J. P. MORGAN	15320	27	71	13838y	16	1296.0	7	9.4	10.2	NA	12.8	184
79	BANC ONE	15235	31	74	7885	10	1277.9	27	16.2	14.1	NA	16.3	90
80	LOCKHEED MARTIN	15174	NA	NR	22853	0	682.0	–35	3.0	4.6	NA	11.8	17
81	SPRINT	14955	47	84	13556	8	960.6	9	7.1	7.0	NA	20.6	15
82	FEDERAL HOME LOAN MORTGAGE	14750	41	80	9480	37	1091.0	6	11.5	14.8	4.6	NA	137
83	VIACOM	14483	–10	50	11689	59	214.9	65	1.8	1.8	2.2	1.4	29
84	WMX TECHNOLOGIES	14270	9	65	10248	7	654.6	–16	6.4	8.1	7.6	13.2	18
85	XEROX	14112	20	73	16611y	10	1174.0	48	7.1	5.3	11.6	21.6	25
86	FIRST CHICAGO NBD	13674	NM	195	10139	26	1150.0	–6	11.3	15.1	22.5	30.6	122
87	UNION PACIFIC	13568	26	78	7486	15	619.0	9	8.3	8.8	7.6	11.2	19
88	COMPAQ COMPUTER	13456	49	96	14755	36	789.0	9	5.3	8.0	18.0	17.8	7
89	WARNER-LAMBERT	13407	30	83	7040	10	739.5	7	10.5	10.8	36.3	33.9	6
90	MEDTRONIC	13266	92	136	2090	29	400.2	47	19.2	16.9	30.1	26.5	2
91	CHASE MANHATTAN	13216	108	146	10407	4	1165.0	–3	11.2	12.0	NA	13.5	121
92	UNITED TECHNOLOGIES	13107	60	109	22802y	8	750.0	28	3.3	2.8	NA	18.3	15
93	CATERPILLAR	12951	25	81	16072	12	1136.0	19	7.1	6.7	18.2	32.5	16
94	NORWEST	12877	62	114	7439	24	956.0	19	12.9	13.4	NA	19.8	72
95	H. J. HEINZ	12568	31	88	8758a	19	629.4	14	7.2	7.5	15.9	25.5	8
96	BAXTER INTERNATIONAL	12407	41	100	5048	13	371.0	9	7.4	9.1	9.2	10.4	10
97	FIRST INTERSTATE BANCORP	12405	105	160	4593	12	885.1	21	19.3	17.8	NA	22.4	58
98	ROCKWELL INTERNATIONAL	12375	48	107	13420	22	770.3	20	5.7	5.8	15.6	19.7	12
99	KIMBERLY-CLARK	12251	47	108	13789	15	33.2	–96	0.2	6.4	3.4	1.2	7
100	RAYTHEON	12065	39	92	11716	17	792.5	33	6.8	6.0	15.8	18.9	7

ALPHABETICAL INDEX OF COMPANIES BEGINS O

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
MONTH HIGH LOW $	PRICE AS MULT BOOK VALUE	P-E RATIO	YIELD	PAYOUT %	TOTAL RETURN %	INST. INVESTORS HOLDING	SHRS. OUT MIL	TURN OVER %	FY	1994 ACTUAL $	1995 ACTUAL $	ANALYSTS' ESTIMATES 1996 EST $	1996 ESTIMATE VARIATION	
4/63	220	31	4.01	125	30	58	260	67.7	12	3.43	2.57	4.68	6.4	Fuel
8/37	429	28	0.46	13	–3	55	477	97.7	01	1.32	1.54	1.93	2.6	Retailing
1/37	1206	20	2.07	41	46	68	364	71.0	12	2.41	2.85	3.22	0.9	Health care
6/48	170	10	3.15	33	52	61	274	72.4	12	6.06b	7.04	7.91	1.3	Banks
2/64	260	11	3.74	43	24	61	251	88.5	12	3.37	7.03	7.60	12.9	Chemicals
1/19	207	37	0.17	6	46	56	681	110.3	12	1.32	0.80	1.73	1.7	Telecommunications
6/26	166	10	1.98	20	60	90	448	53.7	12	1.08	4.24	3.94	4.1	Nonbank financial
4/37	168	11	2.79	30	83	76	251	125.8	12	4.64	6.77	7.13	4.6	Banks
6/57	364	27	2.06	56	31	62	243	67.5	12	2.21	2.69	3.20	3.8	Fuel
1/30	446	18	2.03	36	57	69	390	82.3	12	3.12	2.53	2.91	2.4	Retailing
/104	261	13	5.02	65	5	64	161	60.6	12	5.63	8.42	8.29	5.8	Fuel
7/64	350	19	2.52	47	21	66	224	40.7	09	4.04	4.16	4.52	0.7	Electrical & electronics
2/14	369	NM	0.00	0	15	50	820	101.1	12	0.07	–0.21d	–0.06	350.0	Publishing/TV
1/55	358	20	2.61	51	23	65	254	46.1	12	3.91	3.44	4.43	1.6	Consumer products
2/43	190	12	3.44	41	40	34	278	44.3	12	5.22	5.04	6.19	2.1	Banks
7/37	1361	23	0.20	5	80	61	242	121.8	03	1.71	2.94d	3.59	3.1	Software/services
6/34	452	NM	0.84	DEF	12	58	387	70.9	12	–0.27	–0.46	–0.51	64.7	Publishing/TV
1/54	878	34	2.07	70	43	75	217	30.0	12	3.15	2.24	3.84	1.3	Food
6/19	184	14	5.28	76	22	28	670	30.6	12	1.52	1.66	1.74	2.3	Utilities
4/32	950	31	0.00	0	73	66	266	248.4	12	1.15	1.92	2.26	1.8	Health care
7/37	438	18	1.62	29	49	85	283	50.2	12	2.68	3.09	3.57	0.8	Conglomerates
6/25	373	20	2.35	47	25	48	484	40.6	06	0.44	1.62	1.83	2.2	Food
3/75	428	21	2.05	43	73	67	116	78.2	12	5.32	6.36	7.28	2.3	Chemicals
6/51	853	NM	0.17	DEF	29	60	223	59.7	12	1.87	–0.39	2.73	1.1	Software/services
3/28	445	13	6.56	85	39	45	474	52.3	12	2.53	2.52	2.49	2.8	Telecommunications
7/44	562	22	2.23	49	39	24	249	25.0	07	2.51	2.80	3.12	1.0	Food
6/24	409	NM	0.00	0	14	57	495	57.4	12	0.20	0.27	0.42	11.9	Telecommunications
4/59	154	13	3.96	50	32	63	187	73.3	12	6.02	6.42	6.96	4.6	Banks
6/24	197	12	3.47	43	39	45	428	48.9	12	2.20	2.91	3.22	2.5	Banks
1/50	289	25	1.84	46	63	86	199	56.9	12	4.83b	3.05	5.38	3.3	Aerospace & defense
6/28	322	16	2.33	37	50	61	349	52.4	12	2.53	2.73	3.01	3.7	Telecommunications
1/55	288	15	1.45	21	44	81	179	67.9	12	5.32	5.69	6.60	1.1	Nonbank financial
4/37	134	96	0.00	0	–12	46	369	105.8	12	0.25	0.41	1.02	14.7	Leisure
3/26	288	21	2.10	44	11	61	499	67.0	12	1.62	1.35	1.96	2.6	Services
/109	272	14	2.67	36	20	85	108	102.4	12	6.44b	9.63	10.50	2.7	Computers
4/30	364	13	3.32	42	44	0	315	32.1	12	3.45	3.45	4.29	3.0	Banks
0/50	246	22	2.61	57	30	68	206	65.8	12	4.66	3.01	4.55	6.6	Transportation
7/31	303	18	0.00	0	47	71	266	298.0	12	3.23	2.88	4.59	5.0	Computers
3/75	614	18	2.79	50	33	75	136	78.3	12	5.17	5.48	5.40	5.7	Health care
3/29	879	31	0.45	14	92	90	231	76.5	04	1.28	1.86d	2.25	2.2	Health care
6/34	171	13	2.42	31	113	69	177	174.5	12	5.87	5.76	6.94	6.8	Banks
0/65	332	19	2.05	39	65	76	122	72.2	12	4.40b	5.70	6.61	2.1	Aerospace & defense
5/48	371	12	2.10	24	32	70	194	117.8	12	4.70	5.72	5.79	9.2	Manufacturing
7/24	278	13	2.63	35	45	54	353	46.4	12	2.45	2.76	3.12	1.3	Banks
7/25	508	19	3.12	60	33	59	370	54.1	04	1.59	1.78d	1.98	1.5	Food
7/31	349	34	2.47	84	51	71	271	71.8	12	2.13	1.34	2.61	2.3	Health care
1/74	326	15	1.96	29	105	71	76	141.0	12	8.71	11.02	11.37	3.8	Banks
3/37	317	17	2.04	35	51	38	217	42.6	09	2.82b	3.36	3.83	1.8	Conglomerates
3/50	427	NM	2.36	1500	55	67	160	86.9	12	3.33	0.12	5.02	2.0	Paper
2/35	288	15	1.50	23	44	74	241	42.9	12	2.26	3.25	3.61	2.2	Electrical & electronics

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	COMPANY	MARKET VALUE			SALES	CHANGE 1994	PROFITS 12 1995				RETURN ON CAPITAL		AS
101	PACIFIC TELESIS GROUP	12038	–5	67	9042	–2	1048.0	–8	11.6	12.3	19.3	47.9	1
102	BURLINGTON NORTHERN SANTA FE	11968	NM	196	6183	NA	198.0	NA	3.2	NA	NA	NA	1
103	GENERAL RE	11814	11	79	7210	88	824.9	24	11.4	17.3	10.9	12.4	3
104	MAY DEPARTMENT STORES	11619	28	95	10952	8	700.0	8	6.4	6.4	11.1	17.9	1
105	WELLS FARGO	11585	41	105	5237	8	1032.0	23	19.7	17.4	18.1	27.8	5
106	UNITED HEALTHCARE	11410	54	124	5671y	50	286.0	–1	5.0	7.6	7.8	8.7	
107	COLGATE-PALMOLIVE	11392	22	91	8358	10	172.0	–70	2.1	7.6	5.8	9.2	
108	AUTOMATIC DATA PROCESSING	11255	28	103	3166y	20	422.0	18	13.3	13.6	16.7	18.8	
109	DIGITAL EQUIPMENT	11119	125	199	14440	5	430.5	NM	3.0	NM	10.8	10.3	1
110	DUN & BRADSTREET	10753	22	101	5415	11	320.8	–49	5.9	12.9	23.9	22.9	
111	PACIFIC GAS & ELECTRIC	10626	4	76	9622	–7	1338.9	33	13.9	9.7	10.0	14.6	2
112	J.C. PENNEY	10624	9	87	21658y	0	838.0	–21	3.9	4.9	10.7	15.0	1
113	NORFOLK SOUTHERN	10516	19	99	4668y	2	712.7	7	15.3	14.6	12.1	14.8	1
114	CONAGRA	10452	29	111	24637	3	523.1	13	2.1	1.9	12.3	19.1	1
115	PNC BANK	10439	76	162	6251	9	408.1	–54	6.5	15.5	9.5	9.0	7
116	MERRILL LYNCH	10365	39	126	21513y	18	1113.4	10	5.2	5.6	5.0	19.5	18
117	DEERE	10260	55	143	10521y	17	733.9	12	7.0	7.3	NA	23.8	1
118	BANK OF NEW YORK	10244	63	152	4995	22	914.0	22	18.3	18.3	17.8	18.1	5
119	CPC INTERNATIONAL	10083	28	115	8431	14	512.1	48	6.1	4.6	NA	26.2	
120	ALUMINUM CO. OF AMERICA	10028	44	133	12500	26	790.5	78	6.3	4.5	14.2	18.2	1
121	ARCHER DANIELS MIDLAND	10021	3	86	12971	7	810.3	26	6.2	5.3	11.4	13.5	1
122	LOEWS	10016	75	170	18677y	38	1765.7	559	9.5	2.0	16.0	24.3	6
123	DUKE POWER	10012	25	113	4677	4	714.5	12	15.3	14.2	9.7	13.8	1
124	McDONNELL DOUGLAS	9868	51	145	14332	9	–416.0	NM	NM	4.5	–4.1	–10.4	1
125	US WEST MEDIA GROUP	9860	NA	NR	2374	24	145.0	–47	6.1	14.5	3.9	3.2	
126	TENNECO	9739	14	104	8899	–27	735.0	15	8.3	5.3	15.8	23.2	1
127	SUN MICROSYSTEMS	9624	216	327	6390	20	446.5	75	7.0	4.8	20.3	23.2	
128	GANNETT	9558	24	121	4007	5	477.3	3	11.9	12.2	19.8	23.6	
129	CSX	9446	16	110	10504	9	618.0	–5	5.9	6.8	12.8	14.6	1
130	TEXAS INSTRUMENTS	9446	29	130	13128	27	1088.0	57	8.3	6.7	24.3	26.6	
131	ALBERTSON'S	9355	20	118	12375a	4	455.1	14	3.7	3.4	19.0	24.4	
132	INTERNATIONAL PAPER	9327	3	90	19800	32	1153.0	167	5.8	2.9	10.5	15.2	2
133	NIKE	9311	79	188	5594	36	491.7	52	8.8	7.9	23.2	22.4	
134	NABISCO HOLDINGS	9308	NA	NR	8294	8	314.0	18	3.8	3.5	6.0	7.5	1
135	AMP	9275	18	116	5227	20	427.6	14	8.2	8.6	15.1	15.4	
136	ENRON	9202	11	112	9189	2	519.8	15	5.7	5.0	10.8	17.0	1
137	DEAN WITTER, DISCOVER	9181	35	138	5676y	13	856.4	16	15.1	14.8	NA	18.1	3
138	PHILLIPS PETROLEUM	9175	5	102	13368	9	469.0	–3	3.5	4.0	9.3	14.7	1
139	RJR NABISCO HOLDINGS	9169	20	120	16008	4	627.0	–18	3.9	5.0	5.9	5.2	3
140	GENERAL MILLS	9143	–4	89	5177	3	289.5	–14	5.6	6.7	22.3	96.6	
141	TEXAS UTILITIES	9118	23	127	5639	0	–51.9	NM	NM	11.4	NM	–2.4	2
142	CIGNA	9045	65	175	18955y	3	211.0	–62	1.1	3.0	2.8	2.9	9
143	PPG INDUSTRIES	9006	18	123	7058	11	767.6	49	10.9	8.1	24.8	29.9	
144	KEYCORP	8793	26	132	5880y	12	789.2	–8	13.4	16.2	14.0	15.7	6
145	AETNA LIFE & CASUALTY	8676	43	158	12978y	6	473.9	16	3.7	3.4	5.6	6.5	8
146	RHONE-POULENC RORER	8594	57	176	5142	15	356.5	–3	6.9	8.2	15.2	20.3	
147	CHUBB	8466	24	139	6089y	7	696.6	32	11.4	9.3	11.3	13.9	2
[illegible]	WEYERHAEUSER	8423	1	106	11788	13	799.0	36	6.8	5.7	11.9	17.9	1
[illegible]	BOSTON SCIENTIFIC	8314	296	451	797a	26	47.5	–35	6.0	11.6	NA	1.3	
[illegible]	FPL GROUP	8242	23	151	5593	3	596.1	7	10.7	10.3	9.5	12.6	1

ALPHABETICAL INDEX OF COMPANIES BEGINS

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
2 MONTH HIGH/LOW $	PRICE AS % OF 52-WEEK VALUE	P/E RATIO	[illegible]	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	[illegible] OUT [illegible]	[illegible]		[illegible] ACTUAL $	1995 ACTUAL	ANALYSTS' ESTIMATES [illegible] EST $	[illegible] ATION	
5/26	550	11	7.75	89	1	41	428	63.7	12	2.68	2.46	2.49	1.2	Telecommunications
5/54	238	48	1.50	72	45	75	150	84.3	12	4.38b	1.66	6.14	2.8	Transportation
/124	179	15	1.36	20	12	85	82	69.7	12	7.97	9.92	10.49	1.4	Nonbank financial
9/34	270	16	2.45	39	31	73	249	61.3	01	2.92b	2.96d	3.31	6.3	Retailing
/155	325	12	2.11	26	57	60	47	94.2	12	14.78	20.37	21.08	8.4	Banks
8/34	358	41	0.05	2	52	86	175	186.0	12	1.64	1.57	2.85	4.9	Health care
0/63	698	75	2.40	181	24	63	146	90.5	12	3.82	1.04	4.27	1.4	Consumer products
3/30	500	28	1.03	29	27	72	290	54.5	06	1.19	1.39	1.59	0.6	Software/services
7/32	291	NM	0.00	0	116	66	153	256.4	06	–15.43	0.15	3.74	6.7	Computers
9/51	768	33	4.17	140	27	74	170	58.7	12	3.70	1.89	4.01	7.0	Publishing/TV
1/25	122	9	7.65	66	8	42	415	38.8	12	2.21	2.99	2.82	2.8	Utilities
0/41	200	14	4.04	55	15	77	224	68.4	01	4.29	3.48	3.89	5.4	Retailing
3/63	219	15	2.75	41	26	59	129	41.1	12	4.90	5.44	6.02	2.3	Transportation
7/31	397	18	2.26	41	31	48	248	47.0	05	2.06	2.34d	2.66	1.5	Food
3/24	232	26	4.57	118	26	41	341	64.6	12	2.56b	1.19	2.92	4.1	Banks
5/41	190	11	1.80	19	43	56	180	115.5	12	4.75	5.44	5.86	5.5	Nonbank financial
1/24	333	14	2.04	30	56	88	262	111.5	10	2.34	2.71	3.09	4.5	Manufacturing
5/30	205	12	3.08	37	59	71	197	96.5	12	3.70b	4.30	4.92	2.4	Banks
6/52	527	20	2.20	44	32	61	146	46.8	12	2.25	3.43	4.10	1.2	Food
0/37	231	13	1.58	20	48	80	176	130.3	12	2.48	4.43	5.70	17.0	Metals
0/14	168	13	1.04	14	8	54	521	82.0	06	0.89	1.48	1.39	7.2	Food
8/48	138	6	1.18	7	77	48	118	49.3	12	2.23	14.98	8.24	10.3	Nonbank financial
3/37	208	15	4.17	63	30	40	205	30.6	12	2.88	3.25	3.32	4.5	Utilities
7/55	246	NM	1.09	DEF	59	57	112	55.0	12	5.05	–3.66	6.98	1.3	Aerospace & defense
3/17	220	70	0.00	0	NA	0	472	NA	12	0.61	0.30	0.26	26.9	Publishing/TV
6/42	311	13	3.22	43	26	71	174	61.2	12	3.49	4.16	4.31	4.9	Conglomerates
7/15	500	29	0.00	0	228	87	183	767.4	06	1.01	1.81	2.58	4.3	Computers
0/51	473	20	2.06	41	26	69	141	57.3	12	3.23	3.41	3.70	2.2	Publishing/TV
9/36	223	15	2.32	35	18	62	211	51.7	12	3.12	2.94	3.87	1.8	Transportation
4/40	231	9	1.36	12	28	84	189	357.6	12	3.64	5.63	5.30	13.6	Electrical & electronics
7/27	502	20	1.41	28	22	45	253	49.3	01	1.65	1.84d	2.08	1.4	Food
6/34	123	8	2.80	22	–4	75	261	128.1	12	1.73	4.50	3.80	26.8	Paper
1/35	424	18	0.92	16	82	55	143	97.4	05	2.72	3.64d	4.22	3.1	Consumer products
7/26	223	29	1.57	46	28	20	265	36.1	12	NA	1.20	1.50	3.3	Food
6/36	335	22	2.35	51	16	77	218	69.1	12	1.76	1.96	2.44	2.1	Electrical & electronics
0/32	310	18	2.32	41	13	55	251	55.1	12	1.80	2.07	2.33	3.4	Services
8/39	194	NA	1.64	NA	36	64	171	72.4	12	4.27b	4.87d	5.44	1.8	Nonbank financial
7/31	288	20	3.49	68	9	53	262	53.6	12	1.85	1.79	2.34	10.3	Fuel
5/25	91	21	4.46	95	25	74	273	100.6	12	2.05	1.58	2.57	2.7	Consumer products
5/50	3051	19	3.27	63	16	64	159	57.5	05	1.64	2.98d	3.31	3.9	Food
3/30	158	NM	4.95	DEF	32	47	226	69.7	12	2.40	–0.61	3.03	2.3	Utilities
5/68	126	41	2.57	106	60	83	76	99.5	12	7.66	2.86	11.55	7.2	Nonbank financial
9/35	351	12	2.59	32	29	50	194	44.0	12	2.43	3.80	4.12	3.4	Housing
8/26	179	11	4.04	46	35	46	234	52.8	12	3.45	3.30	3.74	1.9	Banks
7/53	119	18	3.65	66	46	79	115	111.8	12	4.14	4.16	5.91	6.3	Nonbank financial
7/40	517	26	1.88	48	60	22	134	22.0	12	2.45	2.50	3.55	1.7	Health care
4/77	169	12	2.02	25	26	72	87	69.1	12	5.95	7.85	7.72	1.9	Nonbank financial
0/37	189	11	3.78	41	8	61	199	71.0	12	2.86	3.93	4.16	17.1	Paper
2/21	1294	NM	0.00	0	122	44	173	63.6	12	0.81	0.05	1.64	4.3	Health care
8/34	188	14	4.12	58	29	45	185	48.2	12	2.91	3.16	3.26	1.5	Utilities

S TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGIN		RETURN		AS
			CHANGE FROM			CHANGE	12 MONTHS $MIL	CHANGE FROM	12 MONTHS	12 MONTHS	ON INVESTED CAPITAL	ON COMMON EQUITY	
151	AMERICAN BRANDS	8235	10	125	11367y	-14	543.1	-39	4.8	6.7	12.7	13.9	
152	LORAL	8177	136	293	6179	13	339.2	23	5.5	5.1	11.0	17.3	
153	SUNTRUST BANKS	8163	31	149	3688	15	565.5	8	15.3	16.3	15.4	13.9	4
154	WALGREEN	8123	40	169	10682	12	330.5	13	3.1	3.1	18.4	18.1	
155	3COM	8037	134	295	1665	45	157.6	NM	9.5	NM	NA	21.1	
156	CARNIVAL	8010	19	141	1998	11	451.0	18	22.6	21.1	17.1	21.5	
157	AMERICAN ELECTRIC POWER	8002	28	153	5670	3	584.7	5	10.3	10.1	8.8	12.3	1
158	WACHOVIA	7922	33	163	3700y	25	602.5	12	16.3	18.2	12.7	16.7	4
159	EDISON INTERNATIONAL	7763	6	128	8383	0	786.0	9	9.4	8.6	8.3	11.6	2
160	ILLINOIS TOOL WORKS	7744	51	192	4152	20	387.6	40	9.3	8.0	16.0	20.1	
161	WESTINGHOUSE ELECTRIC	7682	39	174	6296	7	-44.0	NM	NM	NM	NM	-4.5	1
162	THE GAP	7679	64	209	4395	18	354.0	11	8.1	8.6	21.6	21.6	
163	MELLON BANK	7665	37	171	3241	22	691.0	60	21.3	16.3	NA	18.2	4
164	CONSOLIDATED EDISON CO. OF N. Y.	7606	17	148	6537	3	723.9	-1	11.1	11.5	9.2	12.4	1
165	WORLDCOM	7601	103	342	3266a	60	118.1	NM	3.6	NM	4.3	4.5	
166	AMERICAN GENERAL	7510	17	147	6495	34	545.0	6	8.4	10.6	8.0	9.4	6
167	BAY NETWORKS	7492	118	482	1728	44	218.3	116	12.6	8.4	20.7	23.1	
168	U. S. HEALTHCARE	7484	9	137	3518y	21	380.7	-3	10.8	13.4	42.3	42.3	
169	CORNING	7452	2	129	5346y	11	-50.8	NM	NM	5.9	1.2	-2.5	
170	UNOCAL	7419	7	135	8425z	6	260.0	110	3.1	1.6	6.1	9.3	
171	OCCIDENTAL PETROLEUM	7370	18	155	10423	13	511.0	NM	4.9	NM	8.1	12.4	1
172	MORGAN STANLEY GROUP	7355	45	190	NA	NA	NA	NA	NA	5.9	NA	NA	14
173	FIRST BANK SYSTEM	7338	41	184	2844	10	568.1	81	20.0	12.2	13.8	21.4	3
174	MATTEL	7327	48	198	3639	14	357.8	40	9.8	8.0	23.2	27.5	
175	PITNEY BOWES	7315	36	180	3555	9	407.7	17	11.5	10.7	16.8	19.7	
176	GOODYEAR TIRE & RUBBER	7221	29	173	13169	7	611.0	8	4.6	4.6	15.7	19.2	1
177	CNA FINANCIAL	7184	57	217	14700	34	757.0	NM	5.2	0.3	9.1	12.3	5
178	MARSH & McLENNAN	7068	18	159	3770	10	402.9	5	10.7	11.1	21.1	24.0	
179	DOMINION RESOURCES	6937	6	144	4652	4	471.4	-9	10.1	11.6	7.2	8.9	1
180	PUBLIC SERVICE ENTERPRISE GROUP	6882	-3	131	6167	4	710.8	-1	11.5	12.2	NA	12.2	1
181	UNICOM	6878	26	177	6910	10	733.9	75	10.6	6.7	8.0	11.4	2
182	RALSTON PURINA	6817	43	197	6873	-8	327.5	76	4.8	2.5	19.4	50.4	
183	WM. WRIGLEY JR.	6815	30	183	1770y	7	223.7	-3	12.6	13.9	28.2	28.1	
184	UST	6740	16	167	1325x	8	429.8	11	32.4	31.7	NA	109.4	
185	HONEYWELL	6720	45	214	6731	11	333.6	20	5.0	4.6	15.4	16.5	
186	W. R. GRACE	6719	59	233	3707y	14	-196.6	NM	NM	NM	NA	-11.7	
187	TEXTRON	6689	43	206	9973	3	479.0	11	4.8	4.5	7.2	14.9	2
188	AMR	6669	44	213	16910	5	196.0	-14	1.2	1.4	5.7	5.1	2
189	MICRON TECHNOLOGY	6624	5	150	3604	95	1013.3	106	28.1	26.7	43.1	45.5	
190	HOUSEHOLD INTERNATIONAL	6534	55	234	5144	12	453.2	23	8.8	8.0	NA	16.7	2
191	SEAGATE TECHNOLOGY	6525	281	531	5493	38	394.0	59	7.2	6.2	17.8	21.8	
192	TOYS 'R' US	6520	-16	119	9022a	7	463.9	-7	5.1	5.9	12.5	13.8	
193	GENENTECH	6517	11	166	918y	15	146.4	18	16.0	15.6	9.0	9.6	
194	HERCULES	6510	27	189	2427	-14	332.8	21	13.7	9.7	26.2	30.2	
195	FREEPORT-McMORAN COPPER & GOLD	6492	50	224	1834	51	253.6	95	13.8	10.7	14.0	NA	
196	AIR PRODUCTS & CHEMICALS	6488	8	172	3891	9	370.3	51	9.5	6.8	11.8	15.1	
197	ENTERGY	6463	27	193	6274	5	562.5	33	9.0	7.1	6.7	7.4	2
198	APPLIED MATERIALS	6409	65	258	3596	97	559.9	131	15.6	13.3	25.8	28.8	
199	ITT	6394	NA	NR	6300	31	892.0	48	14.2	12.6	15.6	NA	
200	SAFEWAY	6383	70	274	16398	5	328.3	31	2.0	1.6	NA	43.3	

ALPHABETICAL INDEX OF COMPANIES BEGINS

			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
MONTH HIGH LOW	PRICE AS % OF BOOK VALUE	P/E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL	TURNOVER		1994 ACTUAL	1995 ACTUAL	ANALYSTS ESTIMATES 1996 EST	ANALYSTS ESTIMATES LONG-TERM GROWTH	
3/37	211	16	4.41	70	27	55	182	52.2	12	4.24b	2.84	3.12	1.0	Consumer products
3/20	416	24	0.68	16	132	82	174	110.5	03	1.69	2.00d	2.26	2.7	Electrical & electronics
7/52	201	15	2.23	32	36	50	114	23.6	12	4.37	4.94	5.43	1.1	Banks
5/23	444	25	1.33	34	41	51	246	52.7	08	1.14	1.30	1.49	0.7	Health care
4/26	1019	31	0.00	0	88	77	164	549.1	05	0.87	1.57d	2.19	4.6	Computers
9/20	382	18	1.28	23	20	40	285	50.0	11	1.35	1.59	1.83	2.2	Leisure
5/31	186	15	5.60	84	34	32	187	47.5	12	2.71	2.85	2.99	3.7	Utilities
3/34	219	13	3.10	41	38	54	170	30.3	12	3.13	3.50	3.75	1.3	Banks
9/15	122	11	5.71	60	13	NA	444	48.2	12	1.52	1.66	1.69	2.4	Utilities
7/44	402	20	1.03	21	48	73	118	37.1	12	2.45	3.29	3.76	1.9	Manufacturing
1/13	448	NM	1.08	DEF	21	34	415	98.8	12	0.07	–0.19	0.50	60.0	Electrical & electronics
5/30	468	22	0.90	20	66	43	144	114.2	01	2.20	2.46	2.76	2.2	Retailing
7/37	214	13	3.94	49	52	60	137	91.2	12	2.42b	4.46	5.09	2.4	Banks
5/26	137	11	6.42	71	25	33	235	36.3	12	2.98	2.93	2.86	1.7	Utilities
3/21	365	29	0.00	0	68	61	193	197.4	12	–0.95	1.36d	1.77	2.3	Telecommunications
9/30	129	14	3.57	49	19	70	206	48.7	12	2.45	2.64	3.46	3.2	Nonbank financial
0/21	793	55	0.00	0	94	75	184	560.9	06	0.63	0.73	1.50	3.3	Software/services
0/27	832	20	2.26	45	16	68	154	361.9	12	2.42	2.42	2.72	3.3	Health care
7/24	358	NM	2.22	DEF	3	60	229	76.7	12	1.32	–0.23	1.80	3.9	Manufacturing
1/25	307	33	2.67	88	9	63	247	70.6	12	0.36	0.91	1.58	12.7	Fuel
4/19	218	18	4.32	76	22	53	319	87.2	12	–0.36	1.31	1.70	17.1	Fuel
4/33	177	NA	1.49	NA	41	50	157	85.4	11	2.02b	NA	4.03	12.4	Nonbank financial
0/38	280	14	2.86	40	52	57	127	75.2	12	2.20b	4.11	4.69	1.1	Banks
6/22	571	21	0.72	15	50	81	220	66.5	12	1.12	1.58	1.85	1.6	Leisure
2/35	354	18	2.86	52	39	76	152	49.3	12	2.21	2.68	3.01	1.7	Office equipment
0/34	226	12	2.11	25	31	69	152	101.4	12	3.75	4.02	4.50	1.6	Automotive
3/72	118	10	0.00	0	57	NA	62	10.0	12	0.51	12.14	9.67	8.0	Nonbank financial
2/76	421	18	3.29	58	22	69	73	46.9	12	5.19	5.53	6.12	1.5	Nonbank financial
4/35	145	16	6.53	105	11	39	176	39.5	12	2.81	2.45	3.06	2.0	Utilities
2/27	127	10	7.68	80	4	37	245	44.7	12	2.78	2.71	2.68	3.7	Utilities
5/23	119	10	5.00	52	32	61	215	51.7	12	1.66	3.07	3.06	3.3	Utilities
3/46	1110	25	1.79	45	43	57	102	41.1	09	2.05b	2.66	3.35	3.0	Food
3/43	855	30	1.79	54	32	26	116	28.8	12	1.98	1.93	2.16	0.9	Food
6/27	1716	17	3.65	60	23	60	189	62.4	12	1.87	2.16	2.46	2.0	Consumer products
5/35	333	20	1.96	40	49	72	127	74.0	12	2.15	2.62	3.02	2.0	Electrical & electronics
2/42	400	NM	0.72	DEF	55	82	97	179.1	12	0.88	–2.05	4.27	3.0	Chemicals
2/53	208	14	1.98	28	47	65	85	51.2	12	4.80	5.51	6.13	0.8	Conglomerates
0/59	179	NA	0.00	0	44	98	76	249.6	12	4.51b	NA	8.15	6.5	Transportation
5/30	297	8	0.63	5	4	60	207	737.6	08	1.90b	3.90	5.46	19.0	Electrical & electronics
0/42	256	16	2.02	32	57	69	97	82.9	12	3.52	4.31	5.11	1.6	Nonbank financial
8/24	361	21	0.00	0	172	68	100	265.1	06	2.83b	3.06	5.38	5.4	Computers
0/21	194	16	0.00	0	–14	60	273	139.5	01	1.85	1.53d	1.81	4.4	Retailing
5/46	425	45	0.00	0	9	1	119	47.7	12	1.04	1.21	1.41	7.8	Health care
3/43	590	20	1.40	29	38	80	109	68.0	12	2.29	2.93	3.23	4.3	Chemicals
3/20	1542	33	2.76	92	59	22	199	46.0	12	0.38	0.98	1.50	16.7	Metals
0/47	265	16	1.95	32	10	73	122	60.2	09	2.06	3.29	3.46	2.0	Chemicals
0/20	99	13	6.34	85	35	66	228	70.6	12	1.49	2.13	2.37	3.8	Utilities
0/23	330	14	0.00	0	55	50	179	700.9	10	1.26	2.56	4.10	3.9	Manufacturing
1/47	110	34	0.00	0	NA	2	106	NA	12	0.48	1.80	2.54	5.9	Leisure
0/16	842	22	0.00	0	67	38	214	56.5	12	1.03	1.35	1.61	2.5	Food

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN ON		ASS
					1995 $ MIL	1994		1994	12 MONTHS 1995		CAPITAL	EQUITY	
201	ALLTEL	6293	17	179	3110	6	354.6	31	11.4	9.3	12.0	18.3	5
202	MBNA	6293	61	253	2565y	38	353.1	32	13.8	14.4	12.4	33.4	13
203	HALLIBURTON	6282	48	230	5699y	3	233.8	36	4.1	3.1	10.0	11.9	1
204	UNION PACIFIC RESOURCES GROUP	6275	NA	NR	1456a	9	350.7	–10	24.1	29.3	18.2	18.4	3
205	PECO ENERGY	6271	6	164	4186	4	630.7	45	15.1	10.8	9.3	12.9	14
206	THE LIMITED	6268	0	154	7881y	8	961.5	114	12.2	6.1	25.1	28.1	5
207	BOATMEN'S BANCSHARES	6180	91	252	2816	14	418.8	3	14.9	16.5	18.1	14.9	33
208	MARRIOTT INTERNATIONAL	6165	62	269	8961	6	247.0	24	2.8	2.4	16.9	25.6	4
209	DURACELL INTERNATIONAL	6133	26	204	2180	9	245.6	11	11.3	11.1	14.9	17.5	2
210	FEDERATED DEPARTMENT STORES	6129	53	352	15049	81	74.6	–60	0.5	2.3	2.4	1.9	19
211	UNION CARBIDE	6116	48	229	5888	21	925.0	138	15.7	8.0	29.9	47.1	6
212	SYSCO	6044	17	187	12722	10	266.8	14	2.1	2.0	14.1	17.8	3
213	CROWN CORK & SEAL	6036	58	266	5054	14	74.9	–43	1.5	2.9	6.6	5.1	10
214	ITT HARTFORD GROUP	6031	NA	NR	12150a	9	559.0	–12	4.6	5.7	10.2	11.6	93
215	TURNER BROADCASTING SYSTEM	5982	54	256	3437	22	102.7	122	3.0	1.6	7.7	63.4	4
216	CONRAIL	5959	37	222	3686	–1	264.0	–19	7.2	8.7	7.6	7.8	8
217	COX COMMUNICATIONS	5944	NA	NR	1286	75	103.8	291	8.1	3.6	NA	4.5	5
218	HOUSTON INDUSTRIES	5943	18	210	3680	–2	445.8	–3	12.1	12.2	8.0	9.9	1
219	CORESTATES FINANCIAL	5936	36	221	2830y	14	452.2	82	16.0	10.1	14.3	19.5	29
220	BROWNING-FERRIS INDUSTRIES	5931	–3	156	5917	26	378.0	20	6.4	6.7	9.9	13.6	7
221	CUC INTERNATIONAL	5923	47	246	1262a	26	148.2	35	11.7	11.0	23.2	23.7	
222	BARNETT BANKS	5917	38	226	3622	18	533.3	9	14.7	15.8	NA	16.3	4
223	PACIFICORP	5899	9	178	3401	–3	505.0	8	14.9	13.3	9.4	13.0	14
224	HERSHEY FOODS	5824	37	231	3691	2	281.9	53	7.6	5.1	26.2	27.6	2
225	FLEET FINANCIAL GROUP	5820	38	232	7099	17	610.0	–28	8.6	13.9	11.9	10.4	50
226	GEORGIA-PACIFIC	5763	–15	140	14292	12	1018.0	212	7.1	2.6	16.6	29.6	12
227	EASTMAN CHEMICAL	5756	27	219	5040	16	559.0	66	11.1	7.8	23.0	36.6	4
228	LINCOLN NATIONAL	5748	51	235	6633y	7	482.2	38	7.3	5.7	NA	10.7	63
229	TRW	5683	34	227	10172	12	446.2	34	4.4	3.7	18.5	20.9	5
230	AON	5618	50	284	3466	14	303.7	13	8.8	8.8	10.6	10.8	19
231	CAROLINA POWER & LIGHT	5617	31	245	3007	5	372.6	19	12.4	10.9	9.4	14.1	8
232	FLUOR	5582	38	247	9644	14	238.8	20	2.5	2.3	17.2	16.7	3
233	INTERNATIONAL FLAVORS & FRAGRANCES	5562	4	181	1439	9	248.8	10	17.3	17.2	22.1	22.2	1
234	MORTON INTERNATIONAL	5553	28	225	3475	12	326.3	23	9.4	8.5	17.5	18.8	2
235	R. R. DONNELLEY	5542	6	185	6512	33	298.8	11	4.6	5.5	10.9	14.1	5
236	TYCO INTERNATIONAL	5517	43	262	4843	14	273.0	49	5.6	4.3	13.8	15.7	3
237	BANK OF BOSTON	5450	70	312	4874	13	541.0	22	11.1	10.2	NA	15.5	47
238	NEWMONT GOLD	5435	61	298	636	7	124.9	50	19.6	14.0	11.4	15.0	1
239	AVON PRODUCTS	5435	40	255	4492	5	286.1	8	6.4	6.2	NA	167.7	2
240	CABLETRON SYSTEMS	5416	91	347	999	33	202.5	35	20.3	19.9	26.7	26.7	
241	CENTRAL & SOUTH WEST	5352	14	211	3730	3	421.0	2	11.3	11.4	10.8	12.7	13
242	DAYTON HUDSON	5348	6	194	22564a	10	362.0	–16	1.6	2.1	7.7	11.3	13
243	ALCO STANDARD	5347	44	276	10310y	25	235.2	179	2.3	1.0	8.3	15.0	5
244	SERVICE CORP. INTERNATIONAL	5321	99	364	1652	48	183.6	40	11.1	11.7	7.1	13.4	7
245	USX-MARATHON GROUP	5317	14	212	13871x	9	–83.0	NM	NM	2.5	NM	–2.6	10
246	U. S. ROBOTICS	5273	725	NR	1092	97	95.7	149	8.8	6.9	18.1	19.9	
247	GENUINE PARTS	5251	10	207	5262	8	309.2	7	5.9	5.9	18.4	18.8	2
248	BECTON, DICKINSON	5248	49	285	2759	6	262.7	12	9.5	9.0	15.0	18.8	2
249	WINN-DIXIE STORES	5229	25	236	12567	11	243.0	9	1.9	2.0	18.3	18.3	2
[illegible]	DTE ENERGY	5170	25	237	3636	3	433.8	3	11.9	11.9	7.9	11.8	11

ALPHABETICAL INDEX OF COMPANIES BEGINS O

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
MONTH HIGH/ LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD %	PAYOUT	TOTAL RETURN %	% INSTITUTIONS	SHRS OUT MIL	TURN %		1994 ACTUAL $	1995 ACTUAL $	AVERAGE ESTIMATE 1996 EST $	5-YR ESTIMATION	
5/23	327	18	3.13	56	20	38	189	36.8	12	1.43	1.86	1.94	1.0	Telecommunications
1/18	596	18	1.98	36	64	51	223	95.2	12	1.18	1.54	1.97	2.5	Banks
5/35	319	27	1.82	49	55	78	114	112.2	12	1.56	2.04	2.38	4.2	Fuel
3/21	329	46	0.19	9	NA	NA	244	NA	12	NA	0.56	1.06	0.1	Fuel
3/24	138	11	6.16	66	12	40	222	52.4	12	1.76	2.64	2.72	2.2	Utilities
3/15	183	7	2.29	15	2	52	358	93.7	01	1.25	2.68	1.13	9.7	Retailing
3/30	220	12	3.77	46	31	33	157	67.7	12	3.40	3.25	3.68	1.9	Banks
1/31	639	26	0.57	15	59	52	126	49.3	12	1.51	1.87	2.17	1.8	Leisure
5/41	438	26	2.01	53	26	57	119	85.7	06	1.68	1.95	2.15	0.5	Manufacturing
1/21	152	78	0.00	0	38	88	203	135.1	01	1.41	0.39	2.03	4.4	Retailing
5/27	315	8	1.67	13	60	66	136	128.8	12	2.27b	5.83	4.72	21.2	Chemicals
5/26	403	24	1.58	38	17	59	184	62.0	06	1.18	1.38	1.56	1.3	Food
1/34	414	57	0.00	0	11	45	128	104.3	12	1.47	0.83	2.39	8.4	Containers
3/47	125	11	3.11	34	NA	3	117	NA	12	5.40	4.77	4.73	0.0	Nonbank financial
2/17	3692	81	0.24	19	54	19	206	19.7	12	0.16	0.36	0.58	13.8	Publishing/TV
5/51	196	25	2.36	58	34	82	83	140.2	12	3.56b	2.94	5.37	3.9	Transportation
4/14	255	55	0.00	0	28	20	270	21.3	12	NA	0.40	–0.13	84.6	Publishing/TV
5/18	141	13	6.63	89	26	45	263	52.3	12	1.66	1.68	1.84	2.7	Utilities
0/29	256	13	3.91	52	48	58	138	62.0	12	1.75	3.22	4.12	3.2	Banks
1/27	213	15	2.30	35	–2	70	200	111.8	09	1.52	1.93	1.91	3.7	Services
0/23	947	38	0.00	0	39	87	182	80.9	01	0.67	0.86d	1.07	2.8	Services
4/43	186	12	3.01	37	45	51	95	65.6	12	4.66b	5.13	5.63	1.8	Banks
2/18	164	13	5.20	66	14	37	284	46.0	12	1.51	1.64	1.56	3.8	Utilities
1/48	570	22	1.91	42	57	34	77	41.7	12	2.12	3.40	3.84	1.0	Food
4/31	146	26	4.18	110	37	71	142	131.7	12	3.75	1.57	4.25	3.8	Banks
5/63	167	6	3.17	18	–13	68	91	160.5	12	3.66	11.29	6.14	37.6	Paper
6/53	377	11	2.33	25	35	62	80	92.8	12	4.05	6.78	6.81	8.7	Chemicals
7/40	132	12	3.35	40	41	68	105	36.2	12	3.37	4.63	4.73	3.2	Nonbank financial
2/64	267	13	2.54	33	35	62	66	66.0	12	5.01b	6.62	7.17	3.9	Conglomerates
5/34	219	20	2.62	53	54	47	108	32.7	12	3.14	2.57	3.84	4.2	Nonbank financial
9/26	218	15	4.99	73	39	31	154	34.5	12	2.03	2.48	2.56	3.9	Utilities
3/46	390	24	1.01	24	39	66	83	77.9	10	2.32	2.78	3.20	1.9	Services
5/46	496	22	2.71	61	7	54	111	44.9	12	2.03	2.24	2.47	1.2	Chemicals
9/26	319	19	1.38	27	31	65	147	78.5	06	1.51	1.96	2.29	3.1	Chemicals
1/33	262	18	2.00	37	7	72	154	34.4	12	1.75	1.95	2.23	1.8	Services
9/26	317	25	0.55	14	39	86	153	68.6	06	1.35	1.44	1.98	2.0	Manufacturing
0/26	168	11	3.04	33	66	72	112	165.5	12	3.67b	4.43	4.71	2.8	Banks
1/34	665	48	0.85	41	62	NA	97	21.0	12	0.70	1.17	1.23	18.7	Metals
7/54	3186	19	2.89	55	47	86	68	95.7	12	3.75	4.19	4.70	1.9	Consumer products
3/39	714	25	0.00	0	90	67	72	192.7	02	2.27	3.00d	3.68	4.1	Software/services
9/23	168	13	6.27	83	20	43	193	45.4	12	2.08	2.10	2.19	3.7	Utilities
1/63	177	19	2.37	45	8	83	72	115.5	01	5.77	3.95d	5.02	6.0	Retailing
9/32	373	26	1.18	31	40	64	113	74.2	09	0.55	1.81	2.26	3.1	Conglomerates
3/27	389	25	0.97	24	63	73	117	65.0	12	1.51	1.80	2.07	1.5	Services
2/16	162	NM	3.68	DEF	18	67	287	59.9	12	1.10	–0.31	1.15	7.8	Fuel
6/27	1098	80	0.00	0	359	86	43	535.2	09	1.03	1.55	3.89	2.6	Telecommunications
5/36	320	17	2.95	50	13	65	123	38.3	12	2.33	2.52	2.79	1.4	Services
9/52	380	23	1.12	26	58	87	64	79.8	09	3.05	3.59	4.15	1.2	Health care
9/27	393	22	2.63	58	25	15	153	15.6	06	1.45	1.56	1.71	1.8	Food
7/27	151	13	5.78	74	32	NA	145	48.3	12	2.67	2.80	2.89	3.1	Utilities

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASS
					MONTHS	CHANGE	MONTHS $ MIL	CHANGE FROM	12 MONTHS	12 MONTHS 1994	% INVESTED CAPITAL	% COMMON EQ	MO
251	READER'S DIGEST ASSOCIATION	5165	0	186	3151	7	240.3	15	7.6	7.1	35.9	39.1	2
252	FIFTH THIRD BANCORP	5147	54	305	1480y	26	287.7	18	19.4	20.7	18.5	17.5	1
253	TRANSAMERICA	5125	35	271	6101	14	470.5	10	7.7	8.0	6.9	12.0	4
254	BANKERS TRUST NEW YORK	5110	4	200	7556	16	215.0	-65	2.8	9.4	NA	4.0	104
255	DRESSER INDUSTRIES	5099	36	267	5791	11	221.1	8	3.8	3.9	12.0	13.8	4
256	DOVER	5058	50	299	3746	21	278.3	38	7.4	6.6	21.3	23.7	2
257	NATIONAL CITY	5058	24	239	2829	22	465.1	8	16.4	18.5	12.8	16.5	36
258	EMC	5057	48	302	1921	39	326.8	30	17.0	18.2	26.8	32.4	
259	LOWE'S	4985	–7	182	7075	16	226.0	1	3.2	3.7	10.9	13.9	3
260	ASCEND COMMUNICATIONS	4965	665	NR	150	280	30.6	251	20.4	22.1	11.0	11.0	
261	ARCO CHEMICAL	4945	21	243	4282	25	508.0	89	11.9	7.9	19.3	26.3	4
262	WILLIAMS	4929	89	372	2856	63	299.4	82	10.5	9.4	8.0	9.6	10
263	NEWMONT MINING	4904	58	321	636	7	112.6	48	17.7	12.7	11.6	13.9	
264	PRAXAIR	4847	55	318	3146	16	262.0	29	8.3	7.5	16.7	25.0	4
265	AMERADA HESS	4790	5	218	7525y	12	–394.4	NM	NM	1.1	NM	–13.3	8
266	SALLIE MAE	4768	76	359	3917	28	366.3	-11	9.4	13.5	7.7	41.0	50
267	ST. PAUL	4755	16	240	5410	15	521.2	18	9.6	9.4	12.1	14.7	19
268	INFORMIX	4742	92	380	709	51	105.3	59	14.9	14.1	NA	24.9	
269	FRONTIER	4742	183	545	2144	29	144.8	-23	6.8	11.2	NA	16.9	2
270	HFS	4739	261	648	413y	32	79.7	49	19.3	17.1	13.5	15.0	
271	THERMO ELECTRON	4733	96	398	2011a	26	129.2	32	6.4	6.1	8.4	10.6	3
272	NUCOR	4713	–4	203	3462	16	274.5	21	7.9	7.6	16.9	21.0	2
273	CINERGY	4710	23	264	3031	5	378.0	67	12.5	7.8	9.4	13.7	8
274	COMCAST	4708	25	273	3363	145	–37.8	NM	NM	NM	NM	NM	9
275	TENET HEALTHCARE	4708	83	377	4671	72	385.3	81	8.2	7.8	9.8	16.3	8
276	ROHM & HAAS	4688	23	268	3884y	10	292.0	11	7.5	7.5	NA	17.6	3
277	EQUITABLE	4663	13	313	7274y	13	350.2	8	4.8	5.0	NA	10.4	108
278	U. S. BANCORP	4650	89	396	2721	13	329.0	29	12.1	10.6	NA	12.8	31
279	FRANKLIN RESOURCES	4630	47	316	857y	2	279.6	9	32.6	30.3	NA	23.5	2
280	GREAT LAKES CHEMICAL	4629	15	238	2361	14	295.6	6	12.5	13.5	NA	21.8	2
281	CHIRON	4618	128	399	1020	175	–512.5	NM	NM	4.9	NA	–76.2	1
282	QUAKER OATS	4616	7	223	5954	4	724.0	275	12.2	3.1	35.7	62.2	4
283	BURLINGTON RESOURCES	4604	–5	205	873	–17	–279.6	NM	NM	14.6	NM	–12.6	4
284	KROGER	4587	57	338	23938	4	318.9	19	1.3	1.2	29.2	NM	4
285	MASCO	4568	16	248	2927	13	200.1	16	6.8	6.7	6.6	8.6	4
286	SAFECO	4567	32	291	3869y	4	399.0	27	10.3	8.4	11.4	11.1	18
287	NOVELL	4528	41	122	1986	-1	320.3	65	16.1	9.7	16.8	16.9	2
288	HILTON HOTELS	4528	34	297	1649y	9	172.8	42	10.5	8.0	10.4	14.3	3
289	PIONEER HI-BRED INTERNATIONAL	4498	58	345	1555	5	182.0	–13	11.7	14.1	21.9	21.4	1
290	EATON	4491	15	254	6822	13	399.0	20	5.8	5.5	14.9	20.2	5
291	COMERICA	4455	35	307	2869	23	413.4	7	14.4	16.6	11.0	15.9	35
292	INGERSOLL-RAND	4452	32	300	5729	27	270.3	28	4.7	4.7	9.8	15.7	5
293	CHARLES SCHWAB	4438	76	383	1420y	33	172.6	28	12.2	12.7	22.9	27.8	10
294	SOUTHWEST AIRLINES	4424	75	384	2873	11	182.6	2	6.4	6.9	10.5	13.2	3
295	NEWELL	4402	17	272	2498	20	222.5	14	8.9	9.4	14.0	18.0	2
296	CLOROX	4400	37	317	2079	9	210.2	10	10.1	10.0	19.3	22.9	1
297	RUBBERMAID	4393	14	191	2344	8	59.8	–74	2.6	10.5	5.8	4.7	1
298	AFLAC	4389	17	275	7191	18	349.1	19	4.9	4.8	14.8	16.9	25
299	McGRAW-HILL	4375	25	286	2935	6	227.1	12	7.7	7.4	15.7	20.1	3
300	PROVIDIAN	4364	26	292	3388	13	345.3	15	10.2	10.0	11.7	12.5	26

ALPHABETICAL INDEX OF COMPANIES BEGINS O

N	PRICE AS % OF BOOK VALUE	P/E RATIO	DIVIDENDS YIELD	[illegible]	TOTAL [illegible]	SHARES [illegible]	[illegible]	TURNOVER	EARNINGS PER SHARE [illegible]	ACTUAL	[illegible]	ANALYSTS' ESTIMATES [illegible] EST	[illegible]ATION	INDUSTRY GROUP
52/38	844	20	3.76	77	8	32	108	36.0	06	2.34	2.35	2.46	4.5	Publishing/TV
52/32	313	18	2.03	36	52	36	100	49.2	12	2.53	2.91	3.31	1.2	Banks
78/54	136	11	2.65	30	42	61	68	37.6	12	5.46	6.58	6.70	2.4	Nonbank financial
72/50	124	32	6.19	198	9	66	79	176.8	12	7.17b	2.02	6.27	11.5	Banks
29/19	319	24	2.43	58	39	74	182	79.2	10	1.98	1.17	1.37	2.2	Manufacturing
49/29	430	18	1.35	24	52	66	114	50.0	12	1.77	2.45	2.85	1.4	Manufacturing
35/26	185	12	4.14	49	30	60	146	36.3	12	2.64b	2.95	3.13	1.9	Banks
27/13	501	16	0.00	0	28	49	230	264.1	12	1.10b	1.36	1.68	3.0	Computers
38/26	306	23	0.65	15	–7	62	161	123.6	01	1.39b	1.36	1.71	4.7	Retailing
48/7	1785	NM	0.00	0	567	92	110	428.0	12	0.09	0.28	0.58	10.3	Software/services
53/42	256	10	5.46	53	27	8	96	8.9	12	2.80	5.28	4.91	10.8	Chemicals
50/29	170	17	2.86	49	69	68	104	69.1	12	1.52	2.78	3.05	4.6	Utilities
51/35	672	49	0.84	41	59	78	86	160.0	12	0.70	1.17	1.20	19.2	Metals
58/20	463	19	0.93	18	54	72	141	86.1	12	1.45	1.82	2.04	2.0	Chemicals
56/43	161	NM	1.17	DEF	6	71	93	68.1	12	0.79	–4.24	1.13	45.1	Fuel
56/35	550	16	1.94	30	128	94	58	170.7	12	5.03	5.27	5.96	3.9	Nonbank financial
51/46	136	9	2.83	27	20	82	84	68.4	12	5.12	5.99	5.51	2.7	Nonbank financial
57/17	1121	46	0.00	0	87	97	135	440.8	12	0.49	0.76	0.97	7.2	Software/services
53/20	557	34	2.83	96	35	62	158	66.4	12	1.50	0.89	1.73	1.7	Telecommunications
57/13	894	64	0.00	0	228	45	102	118.8	12	0.53	0.73	1.07	6.5	Services
57/31	389	33	0.00	0	73	65	86	76.3	12	1.40	1.64d	1.96	3.6	Electrical & electronics
53/42	361	17	0.52	9	–4	66	87	106.4	12	2.60	3.14	3.32	11.1	Metals
52/23	186	13	5.76	77	28	56	158	45.2	12	1.30	2.22	2.24	3.1	Utilities
52/14	NEG	NM	0.48	DEF	25	58	240	154.1	12	–0.32	–0.16	–0.18	116.7	Publishing/TV
53/13	200	17	0.00	0	42	64	214	94.4	05	1.10	1.27d	1.46	3.4	Health care
53/50	290	17	2.36	39	27	73	67	59.2	12	3.79	4.22	5.20	6.3	Chemicals
57/21	149	15	0.79	12	14	27	185	41.6	12	1.53b	1.68	2.06	3.4	Nonbank financial
56/24	188	15	3.63	54	27	39	151	86.6	12	1.40	2.09	2.95	2.4	Banks
58/37	390	18	0.76	14	50	35	80	36.5	09	3.00	3.24	3.65	2.2	Nonbank financial
59/56	342	16	0.64	10	20	79	65	53.2	12	4.00	4.52	5.06	1.6	Chemicals
59/48	687	NM	0.00	0	83	36	42	358.7	12	0.53	–12.62	1.33	14.3	Health care
58/31	399	6	3.32	19	10	43	134	105.3	06	1.68	6.00	1.46	9.6	Food
52/35	207	NM	1.51	DEF	–4	71	127	69.5	12	1.20	–2.20	0.82	17.1	Fuel
58/25	NEG	15	0.00	0	41	60	124	66.9	12	2.19b	2.50	2.86	0.7	Food
52/25	196	23	2.67	61	16	62	160	63.3	12	1.22	1.25	2.06	5.3	Consumer products
50/27	126	11	2.92	33	36	65	126	78.7	12	2.50	3.17	3.13	2.6	Nonbank financial
53/12	239	14	0.00	0	–42	44	372	314.5	10	0.56	0.90	0.91	20.9	Software/services
00/60	376	26	1.28	34	35	42	48	119.7	12	2.52	3.56	3.94	5.6	Leisure
50/33	530	25	1.49	37	62	55	83	114.4	08	2.40	2.16	2.60	4.6	Food
53/49	227	11	2.76	31	19	76	78	79.2	12	4.40	5.13	5.16	4.8	Automotive
53/27	171	11	3.60	40	42	54	115	53.0	12	3.28	3.54	3.84	1.8	Banks
53/28	258	16	1.81	29	31	67	109	72.1	12	2.00	2.55	3.04	5.3	Manufacturing
59/14	714	26	0.63	17	73	47	174	78.9	12	0.77	0.97	1.11	6.3	Nonbank financial
52/16	320	25	0.14	4	75	51	144	127.8	12	1.22	1.23	1.61	3.7	Transportation
59/22	356	20	2.02	40	18	70	159	49.9	12	1.24	1.41	1.65	1.2	Manufacturing
59/56	480	22	2.50	56	44	50	52	63.0	06	3.35	3.78	4.22	0.5	Consumer products
54/25	347	74	1.99	147	–9	45	156	79.0	12	1.42	0.38	1.34	7.5	Manufacturing
50/36	213	13	1.12	15	25	51	95	56.8	12	2.84	3.50	3.75	2.4	Nonbank financial
92/69	479	19	3.02	58	27	65	50	49.6	12	4.10	4.55	†	†	Publishing/TV
47/34	158	13	2.16	28	33	68	94	44.3	12	3.02	3.60	4.52	1.5	Nonbank financial

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THE BUSINESS WEEK 1000

	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
				YEAR	$MIL	FROM		CHANGE FROM	12 MONTHS	12 MONTHS	CAPITAL	COMMON EQUITY	12 MONTHS
301	UNION ELECTRIC	4315	12	259	2103	2	314.1	–2	14.9	15.6	9.1	12.4	6754
302	PANENERGY	4301	28	301	4968	8	303.6	35	6.1	4.9	10.2	14.0	7627
303	UNUM	4298	40	326	4123	14	281.1	82	6.8	4.3	NA	13.4	14788
304	ESTEE LAUDER	4296	NA	NR	3095a	NA	141.2	NA	4.6	NA	19.5	23.7	1826
305	GREEN TREE FINANCIAL	4285	66	374	711	43	254.0	40	35.7	36.4	18.6	27.8	2384
306	AMERICAN STORES	4263	22	287	17865a	–4	325.5	3	1.8	1.7	9.7	14.5	7175
307	MIRAGE RESORTS	4251	97	431	1331	6	169.9	36	12.8	9.9	13.5	14.7	1793
308	PHELPS DODGE	4242	10	261	4185	27	746.6	176	17.8	8.2	23.9	27.9	4646
309	TELLABS	4196	85	414	635	29	115.6	60	18.2	14.7	29.2	29.4	552
310	FEDERAL EXPRESS	4195	15	279	9803	10	315.5	22	3.2	2.9	10.5	13.0	6635
311	BALTIMORE GAS & ELECTRIC	4186	16	280	2935	5	338.0	4	11.5	11.6	8.2	10.6	8317
312	TRIBUNE	4175	12	277	2245	6	245.5	5	10.9	11.0	13.4	NA	3288
313	COOPER INDUSTRIES	4167	–9	215	4886y	7	280.6	–4	5.7	6.4	10.2	16.9	6100
314	NORTHWEST AIRLINES	4148	100	456	9085	9	342.1	16	3.8	3.6	14.4	NM	8781
315	WHIRLPOOL	4117	3	244	8347	3	209.0	32	2.5	2.0	11.7	11.1	7800
316	COMPUTER SCIENCES	4081	63	360	4100	33	133.3	28	3.3	3.4	9.4	10.6	2536
317	SILICON GRAPHICS	4063	–18	201	2497	38	231.4	25	9.3	10.3	NA	16.2	2265
318	SALOMON	4058	6	265	8933y	42	457.0	NM	5.1	NM	NM	10.5	162586
319	CONSOLIDATED NATURAL GAS	4024	17	294	3307	9	21.3	–88	0.6	6.0	NM	1.1	5418
320	GENERAL PUBLIC UTILITIES	4019	15	288	3805	4	481.9	151	12.7	5.3	10.4	15.2	9870
321	ENRON OIL & GAS	3996	20	304	649y	4	142.1	–4	21.9	23.6	11.1	12.5	2147
322	DELTA AIR LINES	3991	36	337	12250	2	510.0	NM	4.2	NM	13.1	20.3	11998
323	NETSCAPE COMMUNICATIONS	3974	NA	NR	81	NM	–3.4	NM	NM	NM	NM	–20.9	228
324	HBO	3972	225	679	496	39	–25.2	NM	NM	8.8	–10.4	–7.9	535
325	HUMANA	3971	5	270	4605y	29	190.0	8	4.1	4.9	15.9	15.5	2878
326	PP&L RESOURCES	3965	23	311	2752	1	350.4	43	12.7	9.0	8.0	12.7	9492
327	JEFFERSON-PILOT	3961	43	355	1569	24	255.3	11	16.3	18.1	12.8	12.7	7990
328	MFS COMMUNICATIONS	3940	77	421	583	103	–267.9	NM	NM	NM	NM	–31.4	1867
329	COASTAL	3865	28	330	10448	2	270.4	16	2.6	2.3	10.1	9.8	10659
330	CHAMPION INTERNATIONAL	3826	0	263	6972	31	771.8	NM	11.1	1.2	14.3	21.7	9543
331	CASE	3795	130	NR	4937	16	346.0	110	7.0	3.9	18.5	23.5	5469
332	AUTOZONE	3795	–2	260	1881	19	145.9	20	7.8	7.7	20.2	20.2	1196
333	DOW JONES	3786	11	290	2284	9	189.6	5	8.3	8.7	10.5	12.2	2534
334	GENERAL DYNAMICS	3771	27	333	3067	0	247.0	11	8.1	7.3	14.8	16.7	3164
335	BAKER HUGHES	3756	39	361	2725	10	128.2	–7	4.7	5.6	6.8	8.1	3223
336	AMERICA ONLINE	3739	217	741	708	245	3.9	NM	0.6	NM	0.9	1.0	694
337	STATE STREET BOSTON	3735	53	366	2274	26	247.1	12	10.9	12.2	32.5	16.1	25526
338	SOUTHERN PACIFIC RAIL	3709	33	351	3151	0	–3.4	NM	NM	7.9	NM	–0.3	4749
339	H&R BLOCK	3676	–6	251	1528y	12	94.8	–52	6.2	14.6	18.4	18.4	1029
340	NORDSTROM	3670	6	289	4063y	7	180.9	–7	4.5	5.1	11.5	11.9	2898
341	COCA-COLA ENTERPRISES	3648	38	363	6773	13	82.0	19	1.2	1.1	4.7	5.8	9064
342	OHIO EDISON	3624	14	314	2466	4	324.4	5	13.2	13.0	8.7	12.3	8824
343	SHERWIN-WILLIAMS	3621	27	343	3274	6	200.7	8	6.1	6.0	16.8	17.0	2100
344	TIMES MIRROR	3594	51	402	3448	3	–339.0	NM	NM	3.9	NA	–28.0	4013
345	LSI LOGIC	3572	15	319	1268	41	238.1	119	18.8	12.1	18.1	19.6	1850
346	MOLEX	3551	32	362	1337	27	139.0	30	10.4	10.2	12.8	12.9	1390
347	DILLARD DEPARTMENT STORES	3533	14	322	5924a	5	257.0	5	4.3	4.3	9.2	10.5	5171
348	DSC COMMUNICATIONS	3517	–14	242	1422	42	192.7	18	13.6	16.2	16.2	18.8	1759
349	ALLEGHENY POWER SYSTEM	3507	25	350	2648	8	254.9	6	9.6	9.8	8.1	11.4	6438
350	W. W. GRAINGER	3480	12	323	3277	8	186.7	46	5.7	4.2	16.6	16.4	1663

ATION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH/LOW	[illegible]	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT	TURNOVER	[illegible]	1994 ACTUAL	1995 ACTUAL	ANALYSTS ESTIMATES 1996 EST	ANALYSTS ESTIMATES VARIATION	
44/35	183	14	5.92	85	18	28	102	42.0	12	3.01	2.95	2.99	1.7	Utilities
31/21	198	14	3.14	44	31	71	150	45.8	12	1.51	2.03	2.23	2.2	Utilities
62/40	205	15	1.80	27	41	71	73	68.4	12	2.09	3.87	4.27	1.4	Nonbank financial
39/32	1119	NA	0.00	0	NA	NA	117	NA	06	NA	NA	NA	NA	Consumer products
33/18	468	17	0.79	14	66	91	135	113.8	12	1.31	1.81	2.14	2.3	Nonbank financial
31/24	190	13	1.92	26	21	58	146	47.6	01	2.42	2.16d	2.32	3.4	Food
46/23	367	26	0.00	0	95	75	92	114.3	12	1.32	1.77	1.93	3.6	Leisure
71/52	158	6	2.94	17	15	77	69	168.2	12	3.81	10.65	9.04	20.4	Metals
53/26	1066	38	0.00	0	82	73	89	417.4	12	0.80	1.26	1.59	2.5	Telecommunications
86/59	173	14	0.00	0	14	83	57	100.1	05	5.27	5.21d	6.35	2.5	Transportation
30/23	149	14	5.50	77	22	37	148	45.2	12	1.93	2.02	2.19	2.7	Utilities
69/54	331	21	1.80	37	22	57	63	67.3	12	3.07b	3.22	3.82	4.5	Publishing/TV
41/33	251	15	3.42	53	2	70	108	72.0	12	2.10	2.51	2.70	3.3	Electrical & electronics
54/22	NEG	13	0.00	0	86	37	90	113.2	12	2.92	3.64	5.79	4.7	Transportation
61/50	219	20	2.45	49	5	79	74	98.2	12	2.10	2.80	3.81	4.2	Consumer products
81/47	324	30	0.00	0	49	81	56	92.6	03	2.09	2.47d	2.95	1.7	Software/services
46/21	285	20	0.00	0	–28	69	163	211.9	06	0.91	1.28	1.43	4.2	Computers
43/32	110	11	1.68	18	8	54	106	97.4	12	–4.31b	3.50	3.86	10.4	Nonbank financial
47/36	202	NM	4.51	843	21	43	94	41.7	12	1.97	0.23	2.51	3.2	Utilities
35/28	139	9	5.63	50	17	61	120	57.5	12	1.42	3.79	2.97	1.0	Utilities
29/19	350	28	0.48	13	20	15	160	28.3	12	0.93	0.89	0.89	14.6	Fuel
81/55	192	19	0.26	5	35	88	51	311.6	06	–4.72b	4.01	7.72	12.8	Transportation
87/23	NM	NM	0.00	0	NA	5	78	NA	12	–0.35	–0.05	0.17	11.8	Software/services
101/38	1246	NM	0.16	DEF	158	88	40	308.8	12	0.85	–0.67	1.90	2.6	Software/services
29/17	324	21	0.00	0	4	67	162	197.9	12	1.10	1.17	1.44	6.3	Health care
27/18	155	12	6.71	81	28	23	159	NA	12	1.41	2.05	2.01	3.0	Utilities
58/34	198	16	2.30	36	50	42	71	36.6	12	3.15	3.55	3.59	4.7	Nonbank financial
68/29	438	NM	0.00	0	74	28	65	127.7	12	–2.42	–4.43	–4.35	21.2	Telecommunications
39/27	150	15	1.09	17	29	66	105	54.8	12	2.05	2.40	2.87	4.5	Fuel
60/38	109	5	0.50	3	–2	88	96	189.7	12	0.38b	7.67	5.98	22.9	Paper
54/22	263	11	0.38	4	128	69	71	120.4	12	2.32	4.72	4.38	5.7	Manufacturing
30/22	525	28	0.00	0	–3	44	147	60.8	08	0.78	0.93	1.15	0.9	Retailing
40/34	243	20	2.46	49	13	38	97	30.9	12	1.83	1.96	2.17	2.8	Publishing/TV
63/43	255	15	2.52	38	29	58	63	64.1	12	3.51	3.92	4.17	2.6	Aerospace & defense
28/18	246	39	1.74	69	40	70	142	132.8	09	0.85	0.67	1.04	5.8	Fuel
57/17	921	NM	0.00	0	177	79	76	865.2	06	0.10	–0.50	0.46	8.7	Software/services
48/30	243	15	1.59	24	44	77	83	61.8	12	2.68b	2.95	3.31	2.1	Banks
25/15	351	NM	0.00	0	33	40	156	107.8	12	1.63	–0.02	0.59	15.3	Transportation
49/32	713	20	3.62	72	–2	77	104	140.2	04	1.01	1.77d	2.01	6.5	Nonbank financial
45/35	265	22	1.11	25	8	54	81	195.7	01	2.47	2.02	2.50	7.6	Retailing
30/20	263	46	0.18	8	39	41	129	31.5	12	0.52	0.62	0.78	6.4	Consumer products
25/19	152	12	6.32	73	21	38	153	40.7	12	1.97	2.05	2.09	1.9	Utilities
45/33	307	18	1.65	30	28	62	85	49.7	12	2.15	2.34	2.62	1.9	Housing
37/17	236	NM	0.71	DEF	85	44	106	85.4	12	0.98	–3.74	1.25	9.6	Publishing/TV
63/23	294	16	0.00	0	1	99	129	352.3	12	0.93b	1.75	2.16	4.2	Electrical & electronics
37/27	330	28	0.17	5	31	21	101	40.9	06	0.96	1.24	1.50	0.7	Electrical & electronics
34/24	144	14	0.38	5	14	76	113	88.7	01	2.23	2.31d	2.58	3.5	Retailing
64/22	344	19	0.00	0	–15	87	115	575.7	12	1.39	1.63	1.82	6.0	Telecommunications
31/22	166	15	5.77	84	31	40	120	38.8	12	1.86	2.00	2.07	3.9	Utilities
71/56	306	19	1.35	25	13	62	51	59.7	12	2.50	3.64	4.08	2.5	Services

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
					12 months $ MIL	CHANGE FROM 1994	12 months $ MIL	CHANGE FROM 1994	12 MONTHS 1995 %	12 MONTHS 1994 %	% INVESTED CAPITAL	% COMMON EQUITY	1995 $ MIL
351	CINCINNATI FINANCIAL	3462	22	348	1656	9	227.4	13	13.7	13.3	9.7	9.5	6109
352	LINEAR TECHNOLOGY	3444	74	472	328	44	112.5	63	34.3	30.3	33.1	33.1	448
353	GENERAL INSTRUMENT	3428	–12	257	2432	19	123.8	–50	5.1	12.2	9.4	13.5	2301
354	MGIC INVESTMENT	3415	53	423	623	22	207.6	30	33.3	31.3	20.0	20.5	1875
355	FLORIDA PROGRESS	3411	14	332	3056	10	248.6	12	8.1	8.0	9.0	11.6	5791
356	VF	3410	3	306	5062	2	157.3	–43	3.1	5.5	8.2	8.3	3447
357	GUIDANT	3406	161	NR	931	8	101.1	10	10.9	10.7	NA	29.3	1023
358	MERIDIAN BANCORP	3405	92	527	1367y	13	169.8	7	12.4	13.1	14.3	13.4	14758
359	APPLE COMPUTER	3386	–29	208	11378	19	167.0	–64	1.5	4.8	5.4	6.0	6553
360	IVAX	3373	38	500	1260	11	114.8	28	9.1	7.9	12.4	14.5	1335
361	WELLPOINT HEALTH NETWORKS	3371	3	309	3107y	11	180.0	–16	5.8	7.6	11.0	10.8	2679
362	REPUBLIC NEW YORK	3369	28	367	2860y	12	288.6	–15	10.1	13.3	8.7	10.4	43882
363	PRICE/COSTCO	3368	13	334	18601y	11	218.3	11	1.2	1.2	9.6	13.8	4925
364	KNIGHT-RIDDER	3365	16	339	2752	4	167.4	–2	6.1	6.5	12.5	15.4	3006
365	E. W. SCRIPPS	3358	44	406	1030	7	93.6	1	9.1	9.7	8.4	8.1	1655
366	NORTHERN STATES POWER	3358	11	328	2569	3	275.8	13	10.7	9.8	9.5	13.0	6229
367	MELVILLE	3349	–2	296	9689	3	–615.7	NM	NM	2.6	–21.5	–28.3	5255
368	HEALTHSOUTH	3336	143	695	1557	22	78.9	56	5.1	4.0	6.7	14.4	2151
369	TORCHMARK	3323	11	331	NA	NA	270.4	–7	NA	14.9	12.7	17.1	9300
370	PROGRESSIVE	3317	20	354	3012	25	250.5	–9	8.3	11.4	NA	18.5	5353
371	FIRSTAR	3304	67	486	1746y	17	228.9	1	13.1	15.2	14.3	15.2	19168
372	INTERPUBLIC GROUP	3295	24	369	2180y	10	129.8	13	6.0	5.8	15.6	18.0	3785
373	REYNOLDS METALS	3283	6	324	7252y	21	389.0	219	5.4	2.0	11.3	17.0	7740
374	CIRCUS CIRCUS ENTERPRISES	3279	46	417	1300	11	128.9	–5	9.9	11.6	8.6	10.9	2197
375	TYSON FOODS	3263	–8	282	5732	8	210.3	NM	3.7	0.1	8.3	13.9	4498
376	OFFICE DEPOT	3252	–7	283	5313	25	132.4	26	2.5	2.5	10.8	13.8	2541
377	MBIA	3251	26	375	462	5	271.4	4	58.7	59.2	5.6	12.1	7267
378	UNION CAMP	3221	–11	281	4212	24	451.1	285	10.7	3.5	NA	21.2	4838
379	ANADARKO PETROLEUM	3216	25	376	434	–10	21.0	–49	4.8	8.5	3.0	2.3	2267
380	KMART	3216	–45	168	34389	6	–490.0	NM	NM	0.3	–1.0	NA	17087
381	PREMARK INTERNATIONAL	3205	16	356	3574	5	255.9	13	7.2	6.6	23.9	26.8	2490
382	WISCONSIN ENERGY	3200	6	329	1770	2	235.2	29	13.3	10.5	9.4	12.5	4561
383	DELL COMPUTER	3197	94	552	5296	52	272.2	82	5.1	4.3	26.1	29.1	2148
384	WASHINGTON POST	3169	10	344	1719	7	190.1	12	11.1	10.5	17.1	16.8	1733
385	HARCOURT GENERAL	3153	9	341	3070y	6	180.7	21	5.9	5.2	12.5	19.2	2884
386	GREAT WESTERN FINANCIAL	3125	24	386	3566	19	261.0	4	7.3	8.4	NA	8.9	44693
387	PALL	3123	34	407	902	22	129.3	22	14.3	14.2	18.7	19.4	1104
388	HUNTINGTON BANCSHARES	3110	29	400	1710y	19	244.5	1	14.3	16.8	NA	16.1	20255
389	POTOMAC ELECTRIC POWER	3096	35	413	1876	3	94.4	–58	5.0	12.5	4.9	4.1	7118
390	ANALOG DEVICES	3088	63	496	1014	27	135.7	64	13.4	10.4	18.9	19.4	1309
391	OMNICOM GROUP	3076	60	484	2258	18	140.0	26	6.2	5.8	NA	25.4	3349
392	VASTAR RESOURCES	3076	22	387	1993	20	102.6	–31	5.1	9.0	NM	143.9	1552
393	ITT INDUSTRIES	3073	NA	NR	8884	15	21.0	–90	0.2	2.6	1.2	0.1	5864
394	DANA	3070	26	397	7787	15	288.1	26	3.7	3.4	16.1	24.7	5694
395	EQUIFAX	3055	30	403	1623	14	147.7	23	9.1	8.5	25.1	38.8	1069
	NORTHROP GRUMMAN	3048	40	427	6818	2	252.0	620	3.7	0.5	11.8	17.6	5455
	SERVICEMASTER	3023	63	501	3203	7	172.0	23	5.4	4.7	21.6	23.0	1650
	HASBRO	3013	9	353	2858	7	155.6	–13	5.4	6.7	10.7	10.2	2616
399	INTUIT	3010	123	625	490	52	–4.5	NM	NM	NM	–1.6	–1.5	510
400	KERR-McGEE	3009	16	371	1801	12	–24.1	NM	NM	4.3	NA	–1.7	3200

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12 MONTH HIGH/		P.E. RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTI-TUTIONS HOLDING	OUT MIL	TURN-		1994 ACTUAL	1995 ACTUAL	ANALYSTS' ESTIMATES		
67/51	145	16	2.08	32	24	34	53	26.1	12	3.72	4.19	4.27	2.6	Nonbank financial
50/27	1014	42	0.34	14	71	92	74	255.5	06	0.76	1.11	1.78	4.5	Electrical & electronics
42/18	375	28	0.00	0	–14	87	126	229.9	12	1.89b	0.96	1.33	6.0	Electrical & electronics
65/37	336	17	0.27	5	53	97	59	96.3	12	2.70	3.50	4.18	3.1	Nonbank financial
37/29	165	14	5.71	81	18	36	96	41.3	12	2.28	2.50	2.55	2.4	Utilities
57/47	184	22	2.68	60	7	86	63	55.2	12	4.20	2.41	4.44	2.9	Consumer products
48/17	986	34	0.21	7	162	75	72	121.9	12	1.28	1.41	1.77	4.0	Health care
53/30	269	17	3.26	56	73	33	66	100.8	12	2.80	2.98	3.70	7.0	Banks
50/27	121	8	1.75	14	–29	57	123	549.5	09	2.61	3.45	–0.85	63.5	Computers
32/22	427	30	0.28	8	33	29	118	136.6	12	0.77	0.96	1.33	6.0	Health care
37/27	202	19	0.00	0	3	15	100	26.6	12	2.14	1.81	2.33	4.3	Health care
65/47	138	13	2.41	31	23	49	56	78.9	12	5.61b	4.59	6.78	4.1	Banks
19/12	213	16	0.00	0	27	60	195	121.3	08	0.51	1.06	1.23	4.1	Retailing
70/52	309	21	2.14	44	29	67	49	69.1	12	3.15	3.34	3.37	5.9	Publishing/TV
44/28	289	36	1.24	44	46	26	80	18.9	12	1.61	1.17	1.92	6.3	Publishing/TV
53/43	166	13	5.48	69	15	29	68	38.8	12	3.46	3.91	3.72	3.5	Utilities
40/27	150	NM	1.38	DEF	2	87	105	82.8	12	2.75	–6.02	2.45	5.7	Retailing
36/16	609	43	0.00	0	74	81	95	136.6	12	0.70	0.82	1.43	2.8	Health care
50/37	208	12	2.50	31	13	56	72	43.2	12	3.72	3.80	4.36	1.8	Nonbank financial
51/37	254	14	0.48	7	19	66	72	40.4	12	3.59	3.26	3.27	2.8	Nonbank financial
46/28	221	15	3.01	45	55	43	73	40.5	12	3.22	3.00	3.90	2.8	Banks
45/33	456	25	1.47	37	25	81	78	46.7	12	1.53	1.66	2.45	1.2	Services
65/46	158	10	2.71	26	6	78	64	127.6	12	1.42	5.35	6.18	19.1	Metals
36/24	277	24	0.00	0	21	68	103	170.1	01	1.59	1.33	1.78	5.6	Leisure
28/22	216	15	0.53	8	–8	22	145	53.4	09	–0.01	1.51	1.51	7.3	Food
32/17	340	25	0.00	0	–11	81	156	147.0	12	0.69	0.85	1.08	3.7	Retailing
78/59	146	12	1.82	21	25	82	43	59.9	12	6.18	6.43	7.14	1.5	Nonbank financial
61/45	151	7	3.86	28	–6	83	69	95.0	12	1.67	6.45	4.53	27.4	Containers
56/39	355	NM	0.55	83	25	71	59	123.4	12	0.70	0.36	0.82	24.4	Fuel
16/6	58	NM	0.00	0	–42	67	459	188.8	01	0.55	–1.08	0.55	32.7	Retailing
55/40	335	13	2.06	27	23	72	61	89.8	12	3.39	4.01	4.35	2.8	Conglomerates
32/26	171	14	5.09	69	9	37	111	30.6	12	1.67	2.13	2.16	1.9	Utilities
49/20	358	13	0.00	0	66	66	93	881.4	01	1.69	2.67	3.41	4.1	Computers
15/250	280	17	1.60	27	15	50	11	14.8	12	14.65	17.15	17.98	2.3	Publishing/TV
46/36	336	19	1.57	29	19	56	73	52.8	10	1.22	2.31	2.54	2.4	Conglomerates
27/17	118	13	4.02	53	27	86	137	90.4	12	1.69	1.72	2.40	7.1	Nonbank financial
29/20	468	26	1.80	47	38	66	115	57.7	07	0.86	1.04	1.23	1.6	Conglomerates
25/17	205	13	3.42	45	37	18	133	35.7	12	1.78	1.78	1.97	2.5	Banks
27/19	165	40	6.35	255	43	21	119	61.3	12	1.79	0.65	1.81	2.8	Utilities
30/16	440	27	0.00	0	60	75	115	137.3	10	0.64	1.00	1.39	3.6	Electrical & electronics
41/26	558	22	3.43	76	57	75	75	47.6	12	1.54b	1.85	2.08	0.5	Services
33/24	4314	30	0.95	28	23	18	97	12.9	12	1.54	1.06	1.60	10.0	Fuel
NA/NA	39	NM	1.14	1000	26	3	117	101.5	12	1.46	0.03	2.28	1.8	Conglomerates
34/23	264	11	3.04	32	27	71	102	56.7	12	2.31	2.84	3.04	6.6	Automotive
23/15	802	21	1.59	34	36	60	147	68.8	12	0.81	0.98	1.13	2.7	Nonbank financial
67/45	213	12	2.59	31	43	69	49	64.9	12	0.72	5.11	5.18	2.7	Aerospace & defense
34/23	405	15	3.02	44	34	11	95	13.5	12	1.81	2.17	2.49	1.6	Services
47/29	198	20	0.93	18	11	68	87	133.3	12	2.01	1.76	2.37	4.2	Leisure
89/30	1008	NM	0.00	0	102	65	45	431.0	07	–5.22	–0.12	0.80	2.5	Software/services
66/49	208	NM	2.75	DEF	22	76	50	76.5	12	1.74	–0.47	3.32	7.5	Fuel

OTES TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSE
		$ M	CHANGE FROM	RANK	12 MONTHS $ M	CHANGE FROM	12 MONTHS $ M	CHANGE FROM	12 MONTHS	1994	ON INVESTED CAPITAL	ON COMMON EQUITY	$ MIL
401	PANAMSAT	2988	NA	NR	116	82	17.5	–3	15.1	28.2	1.7	–1.8	14
402	U.S. CELLULAR	2986	14	368	492	48	99.7	508	20.3	4.9	7.4	7.6	18
403	FIRST USA	2986	43	454	NA	NA	194.0	60	NA	14.9	NA	27.6	73
404	GOLDEN WEST FINANCIAL	2980	33	418	2470	29	234.5	2	9.5	12.0	5.6	10.7	351
405	STRATACOM	2968	126	640	332	115	52.5	165	15.8	12.8	26.4	22.6	2
406	SUNAMERICA	2966	100	591	1122y	25	213.9	25	19.1	19.0	14.2	20.9	168
407	GENZYME	2965	118	824	361a	22	16.4	NM	4.6	NM	3.1	3.1	7
408	JOHNSON CONTROLS	2952	46	463	8659	21	201.6	20	2.3	2.4	12.7	14.6	48
409	WESTVACO	2945	11	365	3280	18	296.5	116	9.0	4.9	11.1	14.3	42
410	ADAPTEC	2940	73	537	594	36	92.3	14	15.5	18.4	21.6	21.9	5
411	ENGELHARD	2935	17	388	2840y	19	137.5	17	4.8	4.9	17.2	19.2	15
412	WHEELABRATOR TECHNOLOGIES	2933	15	378	1452	10	162.1	–10	11.2	13.6	8.8	10.5	33
413	CARDINAL HEALTH	2931	41	458	8180	18	90.3	72	1.1	0.8	11.6	13.5	21
414	FORE SYSTEMS	2928	210	830	145	148	13.2	132	9.2	9.8	6.6	6.6	2
415	NORTHERN TRUST	2926	59	507	1782y	20	220.0	21	12.3	12.3	21.6	17.0	201
416	U.S. SATELLITE BROADCASTING	2919	NA	NR	NA	NA	NA	NA	NA	NA	NA	NA	1
417	TECO ENERGY	2918	17	391	1392	3	189.7	21	13.6	11.6	11.6	16.0	34
418	BLACK & DECKER	2918	29	415	4766	9	216.5	141	4.5	2.1	12.6	17.9	55
419	NEXTEL COMMUNICATIONS	2913	128	670	178a	100	–263.3	NM	NM	NM	NM	–9.7	54
420	PACIFICARE HEALTH SYSTEMS	2913	50	483	4021y	30	116.0	29	2.9	2.9	15.2	15.1	14
421	MALLINCKRODT GROUP	2912	16	389	2228	14	182.8	81	8.2	5.2	12.6	16.0	28
422	WILLAMETTE INDUSTRIES	2902	–2	336	3874	29	514.8	190	13.3	5.9	21.3	29.7	33
423	SOUTHERN NATIONAL	2894	27	808	1775y	11	178.1	–25	10.0	14.8	NA	10.8	205
424	CERIDIAN	2893	102	597	1333	13	97.5	0	7.3	8.3	45.1	33.0	11
425	CIRCUIT CITY STORES	2883	38	455	6686	32	181.0	19	2.7	3.0	14.1	18.5	31
426	SONAT	2883	15	390	1990	15	192.9	36	9.7	8.1	NA	12.8	33
427	RAYCHEM	2873	64	525	1602	7	64.4	NM	4.0	NM	7.0	8.1	14
428	BEAR STEARNS	2865	36	448	4383	33	371.2	72	8.5	6.5	21.5	17.6	860
429	AVERY DENNISON	2864	43	457	3114	9	143.7	31	4.6	3.8	15.0	17.6	19
430	SIGMA-ALDRICH	2855	57	511	960	13	131.7	19	13.7	13.0	16.2	16.5	9
431	CASCADE COMMUNICATIONS	2843	222	874	135	169	25.4	174	18.8	18.5	29.4	29.4	1
432	SCANA	2842	34	445	1353	2	174.0	43	12.9	9.2	NA	10.9	45
433	OXFORD HEALTH PLANS	2831	95	593	1766y	132	52.4	86	3.0	3.7	23.8	23.8	6
434	NORTHEAST UTILITIES	2827	–1	346	3749	3	321.8	–2	8.6	9.1	7.3	11.7	105
435	BMC SOFTWARE	2822	75	555	397	21	70.2	2	17.7	21.0	20.2	20.2	5
436	DIAL	2809	21	408	3575	1	1.1	NM	0.0	4.0	0.8	0.0	38
437	ALTERA	2804	129	706	402	102	86.9	495	21.6	7.3	16.0	34.0	7
438	WESTERN ATLAS	2799	28	401	2226	3	99.8	28	4.5	3.6	6.7	7.4	24
439	HARRAH'S ENTERTAINMENT	2784	–24	278	1550	16	78.8	58	5.1	3.7	11.1	12.9	16
440	HARLEY-DAVIDSON	2772	35	459	1351	17	111.1	15	8.2	8.3	NA	23.8	8
441	FIRST OF AMERICA BANK	2769	30	443	2143y	14	236.7	7	11.0	11.7	14.8	13.4	236
442	CMS ENERGY	2768	33	450	3890	8	232.0	14	6.0	5.6	NA	14.2	78
443	BENEFICIAL	2757	41	481	2322a	12	152.8	–28	6.6	10.2	6.9	10.5	146
444	ALZA	2743	46	499	326	25	72.4	25	22.2	22.3	11.0	15.9	9
445	XILINX	2742	76	571	520	62	87.4	70	16.8	16.0	16.1	26.6	6
446	STAPLES	2732	79	578	2757a	61	60.2	154	2.2	1.4	7.9	10.7	14
447	USX-U.S. STEEL GROUP	2720	8	382	6456	6	303.0	51	4.7	3.3	16.1	21.6	65
448	PAGING NETWORK	2710	61	538	553y	34	–44.2	NM	NM	NM	NM	NM	12
449	CITIZENS UTILITIES	2703	6	379	1040a	28	156.5	14	15.1	16.8	8.4	10.1	36
450	TANDY	2701	4	370	5839y	18	212.0	–6	3.6	4.5	13.0	12.8	27

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
	PRICE AS % OF	P-E RATIO			TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL	TURNOVER		ACTUAL $	ACTUAL	ANALYSTS' ESTIMATES EST $	ESTIMATE	
/12	631	NM	0.00	0	NA	5	100	NA	12	NA	–0.10	NA	NA	Telecommunications
/28	228	30	0.00	0	8	15	83	15.4	12	0.21	1.19	0.87	20.7	Telecommunications
/36	391	18	0.48	9	37	91	60	162.7	06	1.69	2.74	3.67	1.9	Nonbank financial
/36	136	13	0.75	10	33	68	59	55.4	12	3.71	4.00	5.03	4.4	Nonbank financial
/16	1279	61	0.00	0	116	44	74	781.3	12	0.28	0.66	0.82	2.4	Telecommunications
/27	333	19	1.10	21	101	70	54	79.9	09	2.39	2.84	3.80	3.9	Nonbank financial
/36	565	36	0.00	0	78	63	43	395.5	12	0.55	1.90d	2.23	5.4	Health care
/46	224	17	2.29	38	47	62	41	49.5	09	3.60b	4.27	4.95	4.4	Manufacturing
/25	142	10	3.03	31	13	65	102	43.4	10	1.03	2.80	2.74	15.3	Paper
/29	699	22	0.00	0	70	91	52	601.6	03	1.75	2.56d	3.09	3.6	Electrical & electronics
/17	409	21	1.77	38	18	43	144	120.8	12	0.82	0.96	1.13	3.5	Chemicals
/13	190	18	0.69	13	16	33	185	40.0	12	0.97	0.88	1.17	3.4	Utilities
/42	440	30	0.20	6	22	61	49	90.8	06	0.86	2.01	2.47	1.2	Health care
/26	1468	NM	0.00	0	80	23	44	374.4	03	0.27	0.58d	0.91	5.5	Software/services
/34	236	14	2.35	33	58	68	55	82.2	12	3.17	3.75	4.23	1.4	Banks
/NA	NA	NA	NA	NA	NA	NA	90	NA	06	NA	NA	NA	NA	Publishing/TV
/20	250	16	4.24	66	21	39	117	25.5	12	1.32	1.60	1.66	2.4	Utilities
/26	256	14	1.19	17	28	80	86	97.4	12	1.37	2.33	2.30	3.0	Manufacturing
/12	107	NM	0.00	0	25	28	193	175.4	12	–1.25	–2.06d	–2.47	23.1	Telecommunications
/44	379	26	0.00	0	34	62	31	290.7	09	3.02	3.62	4.33	1.4	Health care
/32	255	17	1.58	26	22	80	74	69.7	06	1.38	2.37	2.49	1.6	Health care
/48	167	6	2.36	13	0	54	55	145.2	12	3.23	9.34	7.29	16.3	Paper
/20	180	17	3.29	56	29	18	103	25.9	12	2.27b	1.64	2.74	2.9	Banks
/30	1130	35	0.00	0	37	68	67	96.7	12	1.43	1.22	2.21	2.3	Software/services
/22	295	16	0.41	7	38	74	97	162.7	02	1.72	1.83d	2.13	4.2	Consumer products
/28	192	15	3.22	48	19	70	86	65.0	12	1.62	2.24	1.85	7.6	Utilities
/33	363	NM	0.62	DEF	62	87	44	101.9	06	0.04	–0.49	3.53	5.4	Electrical & electronics
/17	145	14	2.47	35	39	62	118	79.6	06	2.75	1.70	2.75	5.1	Nonbank financial
/36	351	20	2.23	44	46	61	53	48.6	12	1.97	2.70	3.06	2.0	Manufacturing
/36	358	22	0.77	17	58	63	50	110.2	12	2.21	2.64	2.92	1.4	Health care
/20	3294	NM	0.00	0	213	74	42	480.9	12	0.23	0.56	0.87	6.9	Software/services
/21	184	16	5.24	85	31	44	103	36.4	12	1.60	1.70	1.90	3.7	Utilities
/39	1287	58	0.00	0	81	90	34	536.8	12	0.82	1.43	2.28	2.2	Health care
/21	117	10	7.91	79	6	34	127	46.3	12	2.30	2.24	2.33	2.1	Utilities
/28	812	23	0.00	0	74	97	51	483.3	03	1.52	2.43d	2.90	3.8	Software/services
/21	514	NM	2.13	NM	22	62	94	103.0	12	1.61	0.00	1.85	4.3	Conglomerates
/27	1099	34	0.00	0	129	98	43	1057.7	12	0.34	1.91	2.90	3.1	Electrical & electronics
/39	206	28	0.00	0	28	73	53	65.9	12	1.60	1.85	2.23	1.8	Fuel
/22	457	36	0.00	0	7	72	103	140.6	12	0.49	0.76	1.66	4.2	Leisure
/22	595	24	0.56	14	33	55	77	138.7	12	1.37	1.48	1.74	2.3	Leisure
/33	157	12	4.02	47	34	34	63	34.1	12	3.69	3.73	4.15	2.9	Banks
/23	192	13	3.16	42	30	58	91	51.0	12	2.09	2.27	2.38	2.5	Utilities
/37	199	19	3.62	69	45	76	53	71.0	12	3.28	2.72	5.09	4.5	Nonbank financial
/18	603	38	0.00	0	45	55	82	171.2	12	0.71	0.88	1.05	2.9	Health care
/21	834	25	0.00	0	73	96	71	686.7	03	0.80	1.53d	1.99	6.0	Electrical & electronics
/15	483	38	0.00	0	60	81	106	259.7	01	0.43	0.68d	0.90	1.1	Retailing
/29	211	10	3.05	29	2	64	83	158.7	12	2.33b	3.43	3.74	19.0	Metals
/13	NEG	NM	0.00	0	59	94	102	212.8	12	–0.18	–0.43	–0.62	45.2	Telecommunications
/10	174	16	0.00	0	–5	5	233	14.0	12	0.71	0.75d	0.81	2.5	Utilities
/34	168	14	1.83	26	–1	69	62	153.3	12	2.91	3.12	3.57	4.8	Consumer products

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	COMPANY	MARKET VALUE $ MIL	CHANGE IN RANK	RANK A YEAR AGO	SALES 12 MONTHS 1995 $ MIL	% CHANGE FROM 1994	PROFITS 12 MONTHS 1995 $ MIL	% CHANGE FROM 1994	MARGIN % 12 MONTHS 1995	MARGIN % 12 MONTHS 1994	RETURN ON ASSETS %	RETURN ON COMMON EQUITY %	ASSETS 12 MONTHS 1995 $ MIL
451	BROWN-FORMAN	2699	21	419	1520	10	157.2	8	10.3	10.5	19.6	26.8	14
452	ENOVA	2696	7	385	1871	-2	233.3	13	12.5	10.8	10.3	14.8	46
453	MEAD	2689	-16	310	5179	14	342.5	282	6.6	2.0	13.6	15.9	43
454	FMC	2679	25	433	4510	12	215.6	24	4.8	4.3	18.9	35.3	41
455	TELEPHONE & DATA SYSTEMS	2677	7	394	954	31	104.0	72	10.9	8.3	5.6	6.1	34
456	HOMESTAKE MINING	2673	25	441	716y	9	30.3	-61	4.2	11.9	5.7	4.8	13
457	SOUTHERN NEW ENGLAND TELECOMMS.	2655	24	440	1839y	7	168.8	-5	9.2	10.3	10.0	16.6	38
458	PEOPLESOFT	2654	219	909	228	102	29.4	102	12.9	12.9	24.2	24.2	2
459	GLENAYRE TECHNOLOGIES	2649	165	799	321	87	76.4	131	23.8	19.2	NA	19.6	4
460	DELUXE	2647	15	409	1858	6	94.4	-35	5.1	8.3	NA	11.5	12
461	FOOD LION	2643	-3	358	8211	4	172.4	13	2.1	1.9	12.4	15.9	26
462	ST. JUDE MEDICAL	2642	57	541	724	101	129.4	63	17.9	22.0	NA	18.4	10
463	PREMIER INDUSTRIAL	2641	30	464	849	9	112.7	12	13.3	12.9	23.8	24.1	5
464	RITE AID	2638	26	453	5369	26	155.2	285	2.9	0.9	9.5	14.6	27
465	STRYKER	2632	25	449	872	28	87.0	20	10.0	10.6	NA	20.3	8
466	H. F. AHMANSON	2630	22	434	4398	31	450.9	90	10.3	7.1	NA	13.1	505
467	NEW YORK TIMES	2628	24	436	2409	2	135.9	-36	5.6	9.1	6.9	NA	33
468	VENCOR	2621	223	919	2324	14	8.4	-90	0.4	4.2	1.5	0.2	19
469	HARRIS	2607	48	521	3507	2	164.8	26	4.7	3.8	11.6	12.6	30
470	ATMEL	2598	68	573	634	69	113.7	91	17.9	15.9	16.8	19.3	9
471	PARKER HANNIFIN	2596	13	411	3427	21	239.3	124	7.0	3.8	17.2	18.8	23
472	LEHMAN BROTHERS HOLDINGS	2588	37	489	3071y	NA	242.0	NA	7.9	NA	40.4	6.8	1175
473	QUALCOMM	2558	69	579	457	56	34.3	113	7.5	5.5	2.5	4.2	9
474	DPL	2547	14	420	1271	6	165.5	4	13.0	13.3	9.8	14.1	33
475	TELE-COMMUNICATIONS INTERNATIONAL	2541	NA	NR	124a	NA	21.0	NA	17.0	NA	0.8	2.0	16
476	FEDERAL PAPER BOARD	2518	99	666	1913	22	142.3	98	7.4	4.6	10.4	NA	26
477	PAYCHEX	2513	105	678	295	21	44.8	35	15.2	13.7	26.8	26.7	1
478	THERMO INSTRUMENT SYSTEMS	2509	75	598	731a	16	75.6	41	10.4	8.5	9.8	14.6	13
479	NEW ENGLAND ELECTRIC SYSTEM	2508	17	435	2272	1	213.4	3	9.4	9.3	8.6	12.6	51
480	STANLEY WORKS	2506	40	515	2624	5	59.1	-53	2.3	5.0	6.8	8.0	16
481	CRESTAR FINANCIAL	2504	56	558	1386	13	179.8	-2	13.0	15.0	12.8	12.4	183
482	ADC TELECOMMUNICATIONS	2495	60	570	627	31	61.0	38	9.7	9.2	11.6	11.6	6
483	LOUISIANA-PACIFIC	2495	-21	315	2843	-6	-51.7	NM	NM	11.4	NM	-3.1	28
484	SONOCO PRODUCTS	2494	18	447	2706	18	164.5	27	6.1	5.6	12.7	21.3	21
485	MERCANTILE BANCORPORATION	2490	56	562	1341y	15	216.8	29	16.2	14.4	17.0	15.3	160
486	PINNACLE WEST CAPITAL	2470	31	497	1670	-1	218.7	3	13.1	13.4	7.7	10.5	69
487	GAYLORD ENTERTAINMENT	2456	7	412	707	3	65.4	4	9.2	9.2	11.0	16.2	10
488	IMC GLOBAL	2455	78	614	2086	21	151.2	109	7.2	4.2	19.4	19.0	26
489	WHITMAN	2441	23	473	2947	11	133.5	25	4.5	4.0	11.5	22.0	23
490	ADOBE SYSTEMS	2440	12	425	762	28	93.5	NM	12.3	1.1	15.3	15.3	8
491	SOLECTRON	2418	142	801	2250	37	88.7	43	3.9	3.8	15.6	15.5	10
492	HEALTHSOURCE	2413	77	619	1167	100	56.3	44	4.8	6.7	9.6	14.0	8
493	GARTNER GROUP	2411	173	872	270	35	30.0	61	11.1	9.3	42.6	42.7	3
494	DOLE FOOD	2409	56	574	3804	9	119.8	106	3.2	1.7	NA	11.1	24
495	CYPRUS AMAX MINERALS	2405	-4	392	3207	15	124.0	-25	3.9	6.0	5.5	4.6	61
496	ALLERGAN	2404	31	508	1067	13	72.5	-35	6.8	11.7	9.1	11.5	13
497	MANOR CARE	2399	30	506	1445	17	102.3	17	7.1	7.1	13.3	15.1	16
498	MERCURY FINANCE	2373	30	502	310a	33	103.8	27	33.5	34.9	19.4	40.2	16
499	IBP	2369	57	581	12668	5	280.1	54	2.2	1.5	22.8	27.4	20
500	FOREST LABORATORIES	2355	3	416	452y	13	108.3	14	24.0	23.8	14.3	14.3	8

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

[illegible] LOW	AS % OF BOOK	[illegible] RATIO	DIVIDENDS YIELD	PAYOUT	TOTAL RETURN %	SHARES INSTITUTIONS HOLDING	SHRS OUT MIL	TURNOVER	FY	EARNINGS PER SHARE 1994 ACTUAL	1995 ACTUAL	ANALYSTS' ESTIMATES 1996 EST	VARIATION	INDUSTRY GROUP
41/31	461	17	2.66	44	24	37	69	12.7	04	2.15	2.37d	2.63	2.3	Consumer products
25/20	177	12	6.75	80	14	17	117	24.4	12	1.17	1.94	1.95	2.6	Utilities
54/49	124	8	2.24	18	–7	70	54	103.8	12	1.52	6.19	5.51	17.4	Paper
30/58	438	13	0.00	0	25	69	37	44.4	12	4.66	5.72	7.00	5.3	Manufacturing
49/36	161	27	0.82	22	2	65	58	68.1	12	1.07	1.74	1.47	15.6	Telecommunications
21/15	420	88	1.03	91	26	43	138	174.5	12	0.57	0.22	0.33	30.3	Metals
44/32	260	16	4.31	68	29	37	65	37.2	12	2.77	2.60	2.93	1.0	Telecommunications
58/17	2186	NM	0.00	0	211	64	49	363.4	12	0.28	0.54	0.81	3.7	Software/services
49/17	678	36	0.00	0	147	81	60	294.4	12	0.57	1.22	1.58	3.2	Electrical & electronics
34/26	322	28	4.61	129	20	68	82	56.4	12	1.71	1.15	1.86	5.4	Office equipment
7/5	244	15	2.01	31	1	6	475	23.9	12	0.32	0.36	0.41	4.9	Food
46/24	376	21	0.00	0	56	74	70	335.7	12	1.13	1.82	2.06	2.9	Health care
33/23	565	22	1.56	35	36	16	82	33.6	05	1.28	1.43d	1.63	2.5	Services
34/22	249	16	2.35	38	30	88	84	109.7	02	1.67	1.93d	2.15	5.6	Health care
59/38	614	30	0.17	5	25	39	49	175.0	12	1.50	1.80	2.15	0.5	Health care
28/17	86	7	3.87	26	29	96	116	111.5	12	1.58	3.39	2.25	7.6	Nonbank financial
31/20	170	19	2.06	40	29	52	96	48.1	12	2.05	1.40	1.63	4.9	Publishing/TV
39/26	443	NM	0.00	0	18	51	70	97.6	12	1.20	0.21	1.85	2.7	Health care
59/44	200	17	2.05	34	51	79	39	90.8	06	3.07	3.95	4.53	0.7	Electrical & electronics
37/17	441	23	0.00	0	57	71	97	474.3	12	0.67	1.16	1.76	1.1	Electrical & electronics
42/28	204	12	2.06	24	15	73	74	89.1	06	0.71	2.96	3.29	3.0	Manufacturing
26/18	89	14	0.81	11	38	72	105	89.9	11	0.81	1.76	2.37	8.4	Nonbank financial
55/24	315	74	0.00	0	35	49	65	523.6	09	0.28	0.53	0.74	9.5	Electrical & electronics
26/20	219	15	5.45	80	20	34	107	38.1	12	1.54	1.63	1.69	1.8	Utilities
26/15	238	NA	0.00	0	NA	13	118	NA	12	0.35	NA	NA	NA	Publishing/TV
55/27	275	18	3.00	55	84	79	47	169.8	12	1.52b	2.92	4.65	29.5	Containers
59/26	1496	49	0.65	32	103	64	46	131.9	05	0.87	1.12d	1.37	8.0	Software/services
29/16	485	32	0.00	0	70	6	92	14.3	12	0.68	0.86d	1.04	3.8	Electrical & electronics
41/30	155	12	6.11	75	24	33	65	36.2	12	3.07	3.15	3.24	1.9	Utilities
57/37	341	42	2.55	108	43	68	44	60.3	12	2.80	1.33	3.33	2.7	Manufacturing
51/41	173	14	3.08	44	40	44	43	51.3	12	4.47	4.12	5.42	1.7	Banks
49/28	473	42	0.00	0	43	79	63	232.5	10	0.73	0.94	1.26	1.6	Telecommunications
29/21	152	NM	2.42	DEF	–16	47	108	101.4	12	3.15	–0.48	1.44	33.3	Paper
29/22	339	16	2.19	35	21	36	91	24.4	12	1.33	1.72	1.85	3.2	Containers
47/36	177	11	2.93	33	26	34	55	45.8	12	3.74	4.00	4.26	3.5	Banks
30/20	130	12	3.54	44	36	71	87	59.5	12	2.30	2.28	2.25	3.6	Utilities
29/21	608	38	1.20	46	8	40	92	33.0	12	0.69	0.70	1.04	11.5	Publishing/TV
43/22	308	19	0.78	15	77	91	60	191.0	06	–0.07	2.15	3.02	6.0	Chemicals
24/18	403	18	1.63	30	25	73	105	42.1	12	1.00	1.26	1.44	2.1	Conglomerates
74/30	399	27	0.60	16	–6	79	73	601.3	11	0.10	1.26	2.07	6.3	Software/services
51/24	423	30	0.00	0	101	78	50	106.4	08	1.18b	1.62	2.20	3.2	Electrical & electronics
41/15	650	47	0.00	0	74	88	64	135.3	12	0.62	0.81	1.10	3.6	Services
58/19	3439	97	0.00	0	161	41	45	152.4	09	0.33	0.56	0.83	12.0	Services
41/26	223	20	0.99	20	76	61	60	58.7	12	1.14	2.00	2.56	5.1	Food
32/24	105	23	3.09	71	–1	63	93	94.6	12	1.59b	1.13	3.54	25.1	Metals
39/26	381	33	1.29	43	31	82	65	54.0	12	1.73	1.12	2.09	1.0	Health care
40/28	354	22	0.23	5	30	52	63	48.7	05	1.51	1.76d	2.05	2.0	Health care
17/10	861	21	2.18	47	31	55	173	64.3	12	0.49	0.64	0.80	2.5	Nonbank financial
34/16	232	9	0.40	3	58	87	95	122.6	12	1.90	2.90	3.13	8.3	Food
56/40	311	23	0.00	0	2	77	45	119.8	03	2.15	2.24d	2.46	5.3	Health care

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	COMPANY	MARKET VALUE $ MIL		AGO RANK	SALES 12 MONTHS 1995 $ MIL	FROM	PROFITS 12 MONTHS 1995 $ MIL	CHANGE FROM	MARGIN	12 MONTHS	RETURN TO CAPITAL	TO EQUITY	ASSE 12 $ MI
501	NIPSCO INDUSTRIES	2355	17	465	1722	3	184.5	6	10.7	10.4	10.0	15.4	40
502	PARAMETRIC TECHNOLOGY	2347	7	424	448	53	91.0	24	20.3	25.1	21.9	21.8	4
503	ASHLAND	2344	19	476	11491	17	76.0	–56	0.7	1.8	6.8	3.9	70
504	VIKING OFFICE PRODUCTS	2342	93	685	921	37	52.7	37	5.7	5.7	22.4	22.3	3
505	LITTON INDUSTRIES	2339	39	544	3412	4	143.7	129	4.2	1.9	16.5	17.3	26
506	MARSHALL & ILSLEY	2338	22	474	966a	13	189.0	110	19.6	10.5	14.7	15.9	129
507	McKESSON	2333	44	553	13582y	5	137.0	NM	1.0	NM	11.0	12.8	36
508	MANPOWER	2331	7	432	5484	28	128.0	53	2.3	2.0	NA	36.6	19
509	MYLAN LABORATORIES	2328	–6	393	409	15	117.8	12	28.8	29.6	21.2	21.2	6
510	SUNDSTRAND	2322	60	590	1473	7	79.0	–17	5.4	7.0	14.0	17.0	15
511	BIOGEN	2321	70	618	135	–4	5.7	NM	4.2	NM	1.4	1.5	4
512	LIZ CLAIBORNE	2312	86	663	2082	–4	126.9	53	6.1	3.8	12.5	12.9	13
513	ARROW ELECTRONICS	2306	20	488	5919	27	202.5	81	3.4	2.4	14.5	16.9	27
514	AMSOUTH BANCORPORATION	2303	36	535	1371a	28	128.4	–18	9.4	14.6	12.2	12.6	170
515	HILLENBRAND INDUSTRIES	2290	15	471	1625	3	89.9	0	5.5	5.7	10.7	12.1	30
516	CINTAS	2283	28	518	674	19	68.4	19	10.1	10.2	14.2	17.1	6
517	CONSOLIDATED PAPERS	2279	7	439	1579	54	229.2	164	14.5	8.4	17.2	20.8	19
518	SYBASE	2279	8	349	957	16	–19.5	NM	NM	10.5	NA	–4.4	7
519	KOHL'S	2277	52	583	1783a	23	64.4	3	3.6	4.3	11.4	17.6	9
520	SOUTHTRUST	2275	35	542	1708y	30	199.0	15	11.7	13.2	13.1	13.9	207
521	DQE	2268	29	524	1220	0	176.9	9	14.5	13.3	NA	12.9	44
522	C-CUBE MICROSYSTEMS	2265	766	NR	125	177	24.9	397	20.0	11.1	34.3	34.9	2
523	PACIFIC ENTERPRISES	2265	9	469	2343	–12	197.0	8	8.4	6.8	8.7	13.9	52
524	BHC COMMUNICATIONS	2265	23	491	455	–1	37.1	–60	8.2	20.3	2.8	2.1	2
525	UAL	2265	92	705	14943	7	378.0	391	2.5	0.6	15.8	NM	11
526	CABOT	2262	75	646	1845	8	181.4	88	9.8	5.7	20.6	26.3	1
527	SYNOVUS FINANCIAL	2259	69	626	924	25	114.6	28	12.4	12.1	NA	17.2	79
528	TEMPLE-INLAND	2258	–18	357	3461	18	281.0	114	8.1	4.5	8.6	14.4	130
529	INTEGRA FINANCIAL	2249	60	606	1183	11	128.4	–24	10.9	15.9	13.0	11.2	143
530	FOUNDATION HEALTH	2242	32	534	2757	20	156.1	748	5.7	0.8	16.4	18.5	2
531	BRUNSWICK	2240	18	493	3041	13	134.2	4	4.4	4.8	11.8	13.5	23
532	REPUBLIC INDUSTRIES	2236	NM	NR	260	434	23.2	173	8.9	17.4	6.0	6.0	4
533	PUBLIC SERVICE CO. OF COLORADO	2233	17	492	2111	3	178.9	5	8.5	8.3	10.7	12.6	43
534	JAMES RIVER CORP. OF VIRGINIA	2230	11	468	6800	26	126.4	NM	1.9	NM	5.2	4.5	72
535	BAUSCH & LOMB	2224	14	480	1933	2	112.0	260	5.8	1.6	9.3	11.7	29
536	UJB FINANCIAL*	2203	42	572	1215	13	170.4	29	14.0	12.3	15.4	13.3	158
537	BIOMET	2193	17	498	509	28	86.2	16	16.9	18.6	17.8	17.8	5
538	HEALTH MANAGEMENT ASSOCIATES	2192	79	680	568	26	67.1	29	11.8	11.5	18.0	21.1	4
539	MAXIM INTEGRATED PRODUCTS	2187	125	816	345	79	76.1	151	22.1	15.7	33.5	33.5	3
540	SUPERVALU	2187	19	513	16530	1	161.0	206	1.0	0.3	9.4	13.5	43
541	SUN	2185	–30	320	10419z	5	227.0	134	2.2	1.0	12.5	19.6	51
542	CINCINNATI BELL	2185	58	612	1336	9	–25.3	NM	NM	6.2	1.0	–4.9	15
543	HUBBELL	2173	22	519	1143	13	121.9	14	10.7	10.5	19.6	18.7	10
544	AMERICAN STANDARD	2168	74	NR	5221	17	142.4	NM	2.7	NM	17.0	NM	35
545	ARMSTRONG WORLD INDUSTRIES	2160	27	530	2085	4	13.6	–93	0.7	9.3	NM	–0.7	23
546	LYONDELL PETROCHEMICAL	2160	13	487	4936	28	389.0	74	7.9	5.8	27.6	102.4	26
547	AVNET	2160	37	566	4798	26	171.5	50	3.6	3.0	9.7	12.0	24
548	AVX	2156	NA	NR	1179	NA	121.1	NA	10.3	NA	21.4	21.5	8
549	ILLINOVA	2156	22	523	1641	3	175.3	–1	10.7	11.1	7.5	9.7	56
550	WASHINGTON MUTUAL	2154	73	686	1625	24	190.6	11	11.7	13.1	NA	10.8	216

 *Acquired Sunmit Bancorp on March 1, 1996 New name is Summit Bancorp ALPHABETICAL INDEX OF COMPANIES BEGINS ON

N	PRICE AS % OF BOOK VALUE	P/E RATIO	DIVIDENDS YIELD	DIVIDENDS PAYOUT	DIVIDENDS TOTAL RETURN	SHARES INSTITUTIONAL HOLDING %	SHARES SHRS OUT MIL	SHARES TURNOVER %	Fy	EARNINGS PER SHARE 1994 ACTUAL $	EARNINGS PER SHARE 1995 ACTUAL $	ANALYSTS' ESTIMATE EST $	ANALYSTS' ESTIMATE LTG %	INDUSTRY GROUP
39/30	210	14	4.45	62	24	51	62	53.0	12	2.48	2.72	2.76	1.8	Utilities
38/18	565	62	0.00	0	94	89	63	722.5	09	0.57	0.60	2.28	4.4	Software/services
40/30	163	NM	3.00	1375	17	56	64	68.9	09	2.94	0.08	2.63	9.5	Fuel
57/25	993	53	0.00	0	90	86	41	169.5	06	0.76	1.08	1.36	2.2	Retailing
51/33	283	18	0.00	0	38	79	46	57.4	07	1.10	2.84	3.14	1.6	Electrical & electronics
27/20	192	13	2.65	35	23	33	94	30.6	12	0.93b	1.90	2.14	2.8	Banks
55/36	218	18	1.91	34	44	54	45	76.5	03	–4.51	2.98d	3.37	2.7	Health care
34/24	721	19	0.45	8	8	91	74	122.9	12	1.12	1.65	1.91	1.6	Services
25/18	418	21	0.82	17	–6	50	119	143.6	03	1.01	0.95d	1.17	9.4	Health care
78/46	500	30	1.59	48	67	84	31	86.1	12	2.92	2.50	4.64	2.4	Aerospace & defense
77/37	606	NM	0.00	0	58	75	36	530.2	12	–0.15	0.16	0.98	34.7	Health care
34/14	234	19	1.43	27	97	92	74	128.1	12	1.06	1.69	1.84	4.3	Consumer products
50/35	193	12	0.00	0	19	93	47	138.5	12	2.40	4.21	4.79	2.9	Services
41/29	166	13	4.06	53	40	39	58	58.1	12	2.25	3.00	3.27	1.8	Banks
34/27	309	26	1.90	49	18	36	70	25.4	11	1.26	1.27	1.88	3.2	Manufacturing
51/34	570	30	0.41	13	28	40	47	59.3	05	1.34	1.60d	1.89	1.1	Services
55/48	207	10	3.29	33	9	27	45	36.7	12	1.97	5.16	6.06	13.0	Paper
46/20	518	NM	0.00	0	–23	62	73	866.4	12	1.38	–0.27	0.95	13.7	Software/services
52/40	623	28	0.00	0	51	78	37	100.1	01	1.87	2.19d	2.70	2.2	Retailing
27/20	159	11	3.40	37	29	36	88	42.4	12	2.15	2.36	2.61	1.2	Banks
32/21	172	13	4.38	58	36	36	78	38.9	12	1.99	2.20	2.22	2.7	Utilities
74/7	3171	97	0.00	0	724	34	32	698.4	12	0.16	0.72	1.37	12.4	Software/services
30/22	180	13	5.08	64	15	54	85	44.9	12	1.95	2.12	2.15	0.9	Utilities
95/72	127	61	0.00	0	26	22	25	10.2	12	3.71	1.51	2.08	28.8	Publishing/TV
2/90	NEG	8	0.00	0	89	99	13	281.5	12	0.76	21.86	23.31	3.9	Transportation
51/34	335	15	1.19	18	80	58	37	69.3	09	1.84b	4.04	4.32	2.8	Chemicals
30/19	340	20	1.85	36	51	25	77	12.7	12	1.29	1.50	1.71	2.3	Banks
56/40	116	8	2.98	24	–15	77	56	99.2	12	2.35	5.01	3.80	28.9	Containers
59/41	196	18	3.17	56	64	47	33	62.8	12	5.01	3.88	5.23	2.9	Banks
47/27	266	43	0.00	0	31	84	57	190.0	06	2.84	0.90	2.96	1.7	Health care
25/16	225	16	2.19	36	18	79	98	98.3	12	1.35	1.39	1.89	5.3	Leisure
36/3	442	80	0.00	0	809	12	58	221.5	12	0.31	0.37	0.83	10.8	Services
37/29	169	13	5.79	77	22	36	63	40.9	12	2.57	2.65	2.71	2.2	Utilities
37/22	147	33	2.27	74	18	79	85	165.5	12	–0.72	0.81	1.84	16.8	Paper
45/32	232	20	2.68	54	21	66	57	115.6	12	0.23	1.94	2.40	2.5	Health care
40/27	174	13	3.36	43	39	39	58	84.5	12	2.38	2.99	3.28	1.5	Banks
21/13	452	23	0.00	0	17	50	115	151.8	05	0.69	0.83d	0.99	4.0	Health care
32/17	689	36	0.00	0	77	96	70	83.7	09	0.69	0.88	1.08	1.9	Health care
44/16	962	62	0.00	0	121	91	60	281.9	06	0.38	0.59	1.75	1.1	Electrical & electronics
33/26	184	13	3.04	40	29	69	68	52.4	02	0.61	2.43d	2.63	1.9	Food
33/25	209	13	3.43	45	4	55	75	108.3	12	0.91	2.24	2.07	15.0	Fuel
35/21	423	NM	2.44	DEF	60	40	67	38.4	12	1.15	–0.38	1.99	4.0	Telecommunications
70/52	333	18	2.85	52	26	55	33	21.4	12	3.20	3.65	4.06	1.5	Electrical & electronics
32/20	NEG	15	0.00	0	38	52	77	60.7	12	–1.29	1.90	2.56	2.7	Housing
55/43	287	NM	2.46	DEF	31	84	37	95.5	12	4.64b	–0.02	4.96	4.0	Consumer products
29/21	568	6	3.33	19	16	54	80	72.7	12	2.78	4.86	2.96	33.4	Chemicals
56/38	152	15	1.20	18	30	81	43	121.0	06	2.16	3.32	4.35	1.8	Services
38/21	383	NA	0.82	NA	NA	NA	88	NA	03	0.87	NA	NA	NA	Electrical & electronics
30/22	141	15	3.93	57	26	65	76	57.3	12	2.01	1.96	2.47	2.0	Utilities
32/19	135	12	2.80	32	53	57	72	106.9	12	2.46b	2.59	3.03	3.6	Nonbank financial

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	COMPANY	MARKET VALUE			SALES		PROFITS						ASS
		$ MIL			12 MONTHS 1995 $ MIL	CHANGE %	12 MONTHS 1995 $ MIL	CHANGE % 1994	MARGIN % 12 MONTHS 1995	MARGIN % 12 MONTHS 1994	RETURN ON CAPITAL %	RETURN ON EQUITY %	19 $ M
551	COUNTRYWIDE CREDIT INDUSTRIES	2142	44	588	1426	44	157.5	36	11.0	11.7	10.2	12.4	7
552	GATEWAY 2000	2141	61	630	3676	36	173.0	80	4.7	3.6	30.5	31.1	1
553	COOPER TIRE & RUBBER	2133	–9	404	1494	6	112.8	–12	7.6	9.2	14.5	15.1	1
554	NALCO CHEMICAL	2131	–9	405	1215	–3	135.7	85	11.2	5.9	17.8	21.8	1
555	BOSTON CHICKEN	2121	164	932	159	66	33.6	108	21.0	16.8	4.1	4.7	1
556	FIRST TENNESSEE NATIONAL	2116	60	629	1319y	14	164.9	12	12.5	12.7	23.6	20.0	12
557	CADENCE DESIGN SYSTEMS	2103	115	810	548	28	97.3	165	17.7	8.5	65.8	72.5	
558	LONG ISLAND LIGHTING	2094	11	494	3075	0	303.3	0	9.9	9.8	7.5	10.2	13
559	COLUMBIA GAS SYSTEM	2091	59	638	2635	–4	–432.3	NM	NM	9.0	NM	–38.8	6
560	REGIONS FINANCIAL	2085	40	587	1101	29	172.8	18	15.7	17.1	13.7	15.4	13
561	MAYTAG	2082	17	517	3040	–10	–15.0	NM	NM	4.5	NM	–2.4	2
562	ECHLIN	2072	1	460	2822	21	155.8	21	5.5	5.5	12.4	16.5	2
563	HOST MARRIOTT	2067	22	540	485y	28	–62.0	NM	NM	NM	NM	–9.3	3
564	OWENS CORNING	2064	39	586	3612	8	231.0	212	6.4	2.2	37.5	NM	3
565	SANTA FE PACIFIC GOLD	2053	44	601	350	–7	39.8	–30	11.4	15.1	6.3	7.2	1
566	BAYBANKS	2051	72	700	974a	20	130.3	30	13.4	12.4	NA	15.2	11
567	YORK INTERNATIONAL	2049	42	594	2930	21	–96.1	NM	NM	3.7	–6.4	–12.0	2
568	C. R. BARD	2049	47	607	1138	7	86.8	15	7.6	7.1	13.6	16.0	1
569	OLIN	2044	87	742	3150	19	139.9	54	4.4	3.4	13.4	15.5	2
570	AMERICAN GREETINGS	2043	–6	428	1958	6	113.1	–22	5.8	7.9	9.9	9.4	2
571	ANDREW	2030	37	422	648	12	72.3	47	11.2	8.5	18.1	19.7	
572	STERLING SOFTWARE	2026	142	901	610	25	92.2	NM	15.1	NM	20.2	25.4	
573	ADVANCED MICRO DEVICES	2023	–30	340	2430	14	300.5	–2	12.4	14.3	13.0	14.3	3
574	FIRST SECURITY	2017	61	669	1201y	24	120.0	–14	10.0	14.4	NA	11.8	12
575	APACHE	2012	31	576	743y	26	20.2	–56	2.7	7.7	NA	1.9	2
576	WESTERN RESOURCES	2011	3	478	1572	–3	181.7	–3	11.6	11.6	8.6	10.1	5
577	B. F. GOODRICH	2000	74	714	2409	10	118.0	80	4.9	3.0	10.8	12.9	2
578	POLAROID	1998	45	608	2237	–3	–140.2	NM	NM	5.1	NM	–17.3	2
579	DANAHER	1988	16	529	1487	33	105.8	46	7.1	6.5	15.4	19.1	1
580	RYDER SYSTEM	1988	9	509	5167	10	155.4	1	3.0	3.3	7.4	13.0	5
581	CENTURY TELEPHONE ENTERPRISES	1988	20	546	645	14	114.8	15	17.8	17.8	NA	13.4	1
582	ADVANTA	1976	46	622	616y	38	136.7	29	22.2	23.7	11.0	21.5	4
583	REEBOK INTERNATIONAL	1973	–33	335	3481	6	164.8	–35	4.7	7.8	14.8	16.8	1
584	GENERAL NUTRITION	1969	114	850	807a	29	61.4	50	7.6	6.5	14.9	20.8	
585	DARDEN RESTAURANTS	1968	NA	NR	3209	5	11.9	–90	0.4	3.8	NA	1.0	2
586	ECOLAB	1965	26	568	1341	11	99.2	17	7.4	7.0	20.3	22.9	1
587	MILLIPORE	1964	60	677	594	20	85.4	43	14.4	12.0	28.2	37.7	
588	OLSTEN	1958	37	604	2519y	9	90.5	27	3.6	3.1	NA	20.1	
589	LEGGETT & PLATT	1958	15	543	2059	11	134.9	17	6.6	6.2	16.1	18.9	1
590	PERKIN-ELMER	1955	63	684	1114	8	75.2	7	6.8	6.8	21.9	22.1	
591	PAINEWEBBER GROUP	1955	13	528	5320y	34	80.8	155	1.5	0.8	NM	3.5	49
592	GIANT FOOD	1953	39	605	3801	4	97.8	9	2.6	2.5	11.5	12.5	1
593	WORTHINGTON INDUSTRIES	1952	7	510	1454	3	110.7	12	7.6	7.0	16.4	18.0	
594	INFINITY BROADCASTING	1948	74	723	326	19	54.5	64	16.7	12.1	18.6	NM	
595	OWENS-ILLINOIS	1943	55	671	3763	6	169.1	116	4.5	2.2	12.0	34.2	5
596	AT&T CAPITAL	1937	59	689	1577	14	127.6	27	8.1	7.3	7.0	11.4	9
597	MERCANTILE STORES	1930	26	577	2944y	4	123.2	18	4.2	3.7	7.9	8.8	2
598	HORMEL FOODS	1928	–6	461	3040	–1	105.6	21	3.5	4.3	14.2	14.4	1
599	FRUIT OF THE LOOM	1926	9	520	2403	5	–227.3	NM	NM	2.6	NM	–25.4	2
600	NATIONAL SEMICONDUCTOR	1919	–8	452	2652	16	291.5	7	11.0	11.9	15.7	18.3	2

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
2 MONTH HIGH-LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN %	INSTITUTIONS HOLDING	CHG. OUT MIL	TURNOVER	FY	1994 ACTUAL $	1995 ACTUAL $	ANALYSTS' ESTIMATES TOP EST $	ANALYSTS' ESTIMATES LTG RATION	
7/16	169	11	1.52	17	31	81	102	139.1	02	0.96	1.91d	2.32	5.2	Nonbank financial
8/16	385	13	0.00	0	61	25	73	320.9	12	1.22	2.19	2.82	3.2	Computers
0/22	285	19	1.18	22	–8	64	84	86.0	12	1.54	1.35	1.72	9.3	Automotive
9/28	374	19	3.15	58	–5	74	67	49.9	12	1.19b	1.71	1.99	4.0	Chemicals
6/15	296	54	0.00	0	99	49	59	322.9	12	0.38	0.66	0.92	2.2	Leisure
3/21	257	13	3.37	44	56	21	67	103.4	12	2.28	2.43	2.85	2.8	Banks
6/17	1569	28	0.00	0	159	91	47	191.7	12	0.56	1.57	1.76	4.5	Software/services
8/13	85	8	10.17	85	21	35	120	103.0	12	2.15	2.10	2.09	5.3	Utilities
5/26	188	NM	0.34	DEF	69	70	48	73.3	12	4.87	–8.57	3.13	4.2	Utilities
7/33	185	12	2.88	35	43	30	45	57.1	12	3.40	3.75	3.93	1.8	Banks
2/15	327	NM	2.84	DEF	22	59	105	89.5	12	1.42	–0.14	1.54	2.6	Consumer products
0/33	220	13	2.42	32	0	77	61	98.2	08	2.06	2.60	2.87	3.5	Automotive
4/10	309	NM	0.00	0	31	67	159	63.6	12	–0.13	–0.39	0.05	160.0	Leisure
7/33	NEG	9	0.00	0	21	81	51	90.5	12	1.66b	4.40	4.85	5.6	Housing
8/10	370	52	0.32	17	44	58	131	115.8	12	0.46	0.30	0.38	21.1	Metals
7/61	226	15	2.30	34	70	72	20	225.2	12	5.65	7.01	7.33	2.0	Banks
9/37	255	NM	0.50	DEF	25	83	43	59.8	12	2.40	–2.36	3.31	2.4	Housing
7/26	377	23	1.78	42	36	67	57	63.6	12	1.44	1.53	2.06	5.8	Health care
5/48	260	15	2.90	44	67	77	25	137.2	12	3.65	5.50	6.41	8.4	Chemicals
3/26	170	14	2.34	32	–5	84	75	205.2	02	2.00	2.00d	2.26	3.1	Leisure
5/28	554	30	0.00	0	34	61	39	221.4	09	1.13	1.73	2.14	1.4	Electrical & electronics
1/33	582	NM	0.00	0	84	73	30	156.4	09	2.54	0.39	3.46	0.3	Software/services
9/16	96	7	0.00	0	–36	62	104	369.5	12	2.92b	2.81	1.72	23.3	Electrical & electronics
8/16	198	17	3.13	53	64	35	75	83.1	12	1.87	1.57	2.31	4.8	Banks
1/23	184	93	1.08	100	5	71	77	117.9	12	0.70	0.28	0.77	26.0	Fuel
5/30	131	12	6.44	76	7	35	63	46.2	12	2.82	2.71	2.69	2.6	Utilities
7/42	229	18	2.89	51	76	82	26	93.2	12	2.24	4.30	4.21	5.9	Chemicals
9/30	246	NM	1.36	DEF	49	87	45	113.5	12	2.49	–3.09	2.60	6.5	Leisure
5/26	359	19	0.24	5	16	68	58	24.1	12	1.40	1.77	2.07	2.4	Manufacturing
8/22	166	13	2.39	31	10	94	79	66.3	12	1.95	1.96	2.27	6.6	Transportation
6/27	232	17	1.07	18	10	81	59	72.8	12	1.88	1.97	2.19	3.2	Telecommunications
0/31	312	15	0.75	11	43	22	41	87.0	12	2.58	3.20	3.84	1.6	Nonbank financial
8/24	202	13	1.14	15	–27	74	75	152.8	12	3.02	2.07	2.76	8.3	Consumer products
7/12	666	29	0.00	0	89	85	87	238.4	01	0.57	0.78d	0.99	1.0	Food
13/9	167	16	0.00	0	NA	61	159	NA	05	0.33	0.79d	0.91	3.3	Leisure
3/23	453	20	1.84	37	34	46	65	24.7	12	1.25	1.50	1.71	1.2	Consumer products
7/26	867	23	0.72	17	68	84	44	84.3	12	1.09	1.90	2.23	4.0	Electrical & electronics
8/28	435	23	0.61	14	34	61	43	80.0	12	1.61b	2.00	2.38	1.7	Services
7/19	274	15	1.88	28	16	55	84	47.4	12	1.39	1.59	1.78	2.8	Consumer products
9/28	573	29	1.47	43	64	79	42	130.1	06	1.66	1.57	2.05	4.4	Electrical & electronics
3/16	133	38	2.42	92	17	42	98	66.5	12	0.41b	0.52	2.22	11.7	Nonbank financial
5/23	249	19	2.25	43	42	44	59	27.2	02	1.59	1.71d	1.83	1.6	Food
3/17	317	19	2.05	38	9	55	91	81.8	05	1.29	1.16d	1.37	8.8	Metals
2/24	NEG	52	0.00	0	76	84	47	112.0	12	0.49	0.79	1.00	12.0	Publishing/TV
7/10	397	12	0.00	0	55	50	120	27.7	12	0.64	1.40	1.57	2.5	Containers
5/24	174	15	1.07	16	61	8	47	16.0	12	2.14	2.70	3.15	5.4	Nonbank financial
4/40	137	16	2.02	32	28	43	37	49.4	01	2.84	3.35	3.41	3.8	Retailing
8/23	263	16	2.39	38	–4	23	77	23.1	10	1.54	1.57	1.66	5.4	Food
8/17	215	NM	0.00	0	9	73	76	119.0	12	0.79	–2.99	1.75	3.4	Consumer products
4/15	125	8	0.00	0	–8	92	123	349.9	05	1.92b	2.01d	2.51	11.2	Electrical & electronics

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	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
					12 MONTHS	CHANGE FROM	12 MONTHS $ MIL	CHANGE FROM	MONTHS	12 MONTHS 1994	RETURN ON REVENUE CAPITAL	% COMMON EQUITY	12 MONTHS
601	NELLCOR PURITAN BENNETT	1907	238	NR	463	13	–18.3	NM	NM	7.6	NA	–5.6	537
602	UNION BANK	1900	58	697	1595y	27	207.3	228	13.0	5.0	14.9	14.6	19518
603	VULCAN MATERIALS	1897	–1	490	1461	17	166.2	70	11.4	7.8	19.6	20.9	1216
604	UNITRIN	1886	–18	410	1447	6	150.6	1	10.4	10.9	9.8	9.9	4819
605	TIG HOLDINGS	1884	45	647	1886y	5	118.0	127	6.3	2.9	8.4	9.1	6683
606	KANSAS CITY SOUTHERN INDUSTRIES	1883	17	561	775y	–29	236.7	126	30.5	9.6	16.3	34.3	2507
607	CAREMARK INTERNATIONAL	1882	50	667	2374	34	20.2	–63	0.9	3.1	NA	5.6	1264
608	STAR BANC	1880	48	659	836	24	136.6	17	16.3	17.3	18.4	16.7	9573
609	MURPHY OIL	1872	–4	479	1711y	1	–118.6	NM	NM	6.3	NA	–9.2	2316
610	REVCO D. S.	1867	53	681	4924	56	70.2	61	1.4	1.4	6.8	8.8	2308
611	INTERNATIONAL GAME TECHNOLOGY	1867	1	504	618	–10	94.7	–30	15.3	19.8	16.4	17.2	1021
612	ST. JOE PAPER	1860	3	512	335	–51	29.3	–30	8.8	6.1	2.5	2.9	1531
613	McCORMICK	1858	3	514	1859	10	97.5	59	5.2	3.6	15.3	18.8	1614
614	TOTAL SYSTEM SERVICES	1850	62	721	250	33	27.7	23	11.1	12.0	20.2	20.3	190
615	WENDY'S INTERNATIONAL	1844	16	563	1728y	26	110.1	13	6.4	7.1	12.5	14.2	1116
616	LUBRIZOL	1841	–15	430	1664	4	151.6	–14	9.1	11.0	14.8	17.5	1492
617	PACCAR	1836	7	532	4830	7	252.8	24	5.2	4.5	NA	19.1	4309
618	WITCO	1836	14	559	1985	8	100.3	6	5.1	5.1	NA	9.6	1985
619	GENETICS INSTITUTE	1829	91	821	172	31	–22.5	NM	NM	NM	–5.5	–5.5	434
620	MIDAMERICAN ENERGY	1826	26	930	1554	3	130.4	–4	8.4	9.0	6.7	9.9	4446
621	TIDEWATER	1820	74	775	574	9	64.4	51	11.2	8.1	10.2	10.6	848
622	SNAP-ON	1813	24	592	1292y	8	113.3	15	8.8	8.2	NA	15.1	1361
623	OLD KENT FINANCIAL	1810	41	652	1096y	20	141.8	3	12.9	15.0	18.4	14.2	12003
624	CLAYTON HOMES	1808	35	623	839	21	95.9	26	11.4	11.0	15.7	16.8	801
625	AMERICAN NATIONAL INSURANCE	1807	37	633	1471	5	206.4	–4	14.0	15.4	NA	9.2	6845
626	AMERICAN RE	1806	12	560	1797	7	–87.3	NM	NM	5.8	NM	–10.3	7814
627	DIEBOLD	1797	67	760	863	14	76.2	20	8.8	8.4	15.2	15.5	719
628	GENERAL SIGNAL	1795	6	536	1863	22	100.1	–4	5.4	6.8	11.2	18.9	1613
629	PEP BOYS–MANNY, MOE & JACK	1794	–8	467	1520a	11	81.2	5	5.3	5.6	9.8	12.6	1393
630	USF&G	1794	31	616	3459	5	209.0	–12	6.0	7.2	NA	12.1	14651
631	LEAR SEATING	1792	86	820	4714	50	94.2	58	2.0	1.9	8.6	17.4	3061
632	THERMO CARDIOSYSTEMS	1789	228	NR	19a	130	5.5	332	29.7	15.8	5.9	7.3	106
633	OLD REPUBLIC INTERNATIONAL	1786	40	655	1696	1	212.5	41	12.5	9.0	11.3	13.6	6550
634	TRITON ENERGY	1782	60	730	107	226	6.5	NM	6.1	NM	2.5	2.5	827
635	LOCTITE	1781	9	551	785	12	83.9	2	10.7	11.7	19.9	18.8	716
636	MEDAPHIS	1777	109	935	468	47	2.7	–89	0.6	7.6	1.2	0.8	719
637	PENNZOIL	1774	–19	426	2490y	–3	–305.1	NM	NM	NM	NM	–35.7	4308
638	TAMBRANDS	1772	12	564	683	6	85.5	–5	12.5	13.9	53.9	88.4	422
639	CAPITAL ONE FINANCIAL	1770	47	692	1010	54	126.5	33	12.5	14.5	8.2	21.1	4759
640	OFFICEMAX	1769	39	NR	2543	38	NA	NA	NA	1.6	NA	11.8	1568
641	HARNISCHFEGER INDUSTRIES	1769	38	631	2388y	42	112.1	213	4.7	2.1	13.8	20.0	2041
642	PETSMART	1767	73	797	1031	26	–2.8	NM	NM	NM	NA	–1.4	510
643	AMERICAN FINANCIAL GROUP	1762	55	720	3649y	74	190.4	907	5.2	0.9	NA	16.7	13943
644	HEALTH SYSTEMS INTERNATIONAL	1761	34	639	2732	18	89.6	2	3.3	3.8	19.4	34.6	1021
645	IDEXX LABORATORIES	1754	193	NR	189	49	21.5	61	11.4	10.6	7.9	7.9	313
646	RELIASTAR FINANCIAL	1751	72	662	2090	33	169.1	57	8.1	6.9	12.2	13.3	15519
647	CLEAR CHANNEL COMMUNICATIONS	1750	79	803	283y	41	32.0	45	11.3	11.0	9.4	21.2	520
648	UNION TEXAS PETROLEUM HOLDINGS	1732	3	539	852y	14	102.0	52	12.0	9.0	11.5	24.4	1881
649	HEALTHCARE COMPARE	1731	60	753	214	15	66.5	31	31.0	27.2	25.6	25.6	297
650	BOISE CASCADE OFFICE PRODUCTS	1729	NA	NR	1316	45	43.2	63	3.3	2.9	13.3	13.3	544

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE

ATION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH/	AS % OF				TOTAL	HOLDING	SHRS OUT MIL	TURN-OVER	FY	ACTUAL		ANALYSTS' ESTIMATES EST	ATION	
69/33	587	30	0.00	0	97	90	28	225.9	06	1.22	2.20	2.70	0.7	Health care
58/33	142	10	2.69	26	59	84	37	36.5	12	1.80	5.38	5.62	6.8	Banks
60/52	238	12	3.10	36	5	57	35	28.4	12	2.67	4.63	4.80	3.1	Housing
52/45	124	13	4.49	59	4	28	38	33.3	12	2.96	3.73	3.53	8.2	Nonbank financial
33/19	147	17	0.63	11	53	91	60	71.4	12	0.79	1.89	2.42	6.6	Nonbank financial
49/36	273	9	0.86	7	27	75	41	90.7	12	2.32	5.41	3.08	3.6	Transportation
28/17	519	94	0.16	15	46	69	74	126.0	12	1.08	0.27	1.23	1.6	Health care
67/41	229	14	2.54	35	52	33	30	21.7	12	3.89	4.55	5.22	1.5	Banks
44/38	145	NM	3.11	DEF	–1	68	45	52.4	12	2.37	–2.64	1.62	14.8	Fuel
29/18	234	23	0.00	0	51	69	67	107.0	05	0.95	1.22d	1.38	2.9	Health care
17/11	339	21	0.81	17	6	37	127	164.6	09	1.07	0.71	0.84	4.8	Manufacturing
68/53	186	64	0.33	21	3	90	31	11.2	12	1.38	0.96	NA	NA	Containers
27/20	358	19	2.45	47	6	49	81	96.4	11	0.75	1.20	1.36	6.6	Food
32/13	1354	67	0.31	21	63	3	65	3.9	12	0.35	0.43	0.55	NM	Software/services
23/15	238	20	1.32	27	18	59	102	131.9	12	0.93	0.90	1.31	3.8	Leisure
37/26	213	12	3.28	41	–10	69	63	97.4	12	2.67	2.37	2.17	7.4	Chemicals
55/39	138	7	8.47	62	16	42	39	86.9	12	5.26	6.50	4.66	4.7	Automotive
36/27	175	18	3.43	63	18	80	56	52.2	12	1.92	1.78	2.01	11.4	Chemicals
70/31	447	NM	0.00	0	90	23	27	70.2	12	–0.71	–0.84	0.68	5.9	Health care
19/14	148	15	6.62	98	33	14	101	20.6	12	1.28	1.22	1.41	6.4	Utilities
36/18	300	24	1.47	35	76	82	53	123.7	03	0.80	1.41d	1.85	5.9	Fuel
47/34	242	16	2.41	39	35	72	41	58.2	12	2.30	2.76	3.12	2.2	Manufacturing
42/29	181	13	3.21	41	37	29	45	58.5	12	3.19	3.11	3.70	1.6	Banks
23/12	317	21	0.42	9	32	65	96	65.7	06	0.76	0.92	1.09	1.8	Housing
69/50	87	9	3.69	32	40	19	26	17.5	12	8.12	7.79	NA	NA	Nonbank financial
45/33	213	NM	0.83	DEF	13	33	47	49.7	12	2.01	–1.85	3.84	6.0	Nonbank financial
41/23	364	24	1.63	38	68	67	46	90.8	12	1.39	1.67	1.91	3.1	Office equipment
43/28	339	18	2.64	47	4	81	49	84.4	12	2.20	2.03	2.60	2.3	Electrical & electronics
34/22	278	22	0.63	14	–8	62	60	138.5	01	1.32	1.35d	1.63	3.7	Retailing
20/13	120	10	1.33	13	6	53	120	82.8	12	1.86b	1.53	1.60	5.6	Nonbank financial
33/17	332	18	0.00	0	53	83	56	52.5	12	1.26	1.79	2.47	2.0	Automotive
83/24	2363	NM	0.00	0	211	23	24	57.6	12	0.08	0.28d	0.56	14.3	Health care
37/24	119	10	1.52	15	40	75	52	42.1	12	2.44b	3.42	3.27	4.9	Nonbank financial
59/31	778	NM	0.00	0	59	78	36	118.2	12	–1.74	0.16	0.40	35.0	Fuel
54/43	399	22	1.89	42	17	44	34	37.6	12	2.33	2.40	3.10	2.9	Chemicals
43/20	487	NM	0.00	0	38	85	46	397.5	12	0.58	0.05	1.05	2.9	Services
51/35	208	NM	2.61	DEF	–15	57	46	55.4	12	-6.16	–6.60	1.28	18.8	Fuel
53/40	1832	21	3.81	79	16	68	37	97.7	12	2.43	2.33	2.74	2.6	Consumer products
30/18	295	14	1.20	17	48	54	66	116.8	12	1.44	1.90	2.33	1.7	Nonbank financial
27/15	184	31	0.00	0	29	87	82	137.7	01	0.40	0.70d	0.90	1.1	Retailing
41/27	316	19	1.06	20	37	73	47	125.5	10	0.74	1.99	2.86	7.7	Manufacturing
36/21	711	NM	0.00	0	50	68	51	195.5	01	0.09	-0.07	0.86	1.2	Retailing
35/23	160	8	3.14	26	34	30	55	29.1	12	0.02	3.87	3.24	2.8	Nonbank financial
37/25	681	20	0.00	0	35	18	48	43.7	12	1.77	1.83	2.37	4.2	Services
54/19	648	79	0.00	0	153	90	37	159.7	12	0.40	0.61	0.85	NM	Health care
52/33	145	12	2.07	24	44	70	36	50.0	12	3.08b	4.10	4.56	2.6	Nonbank financial
53/27	1161	56	0.00	0	78	52	35	47.4	12	0.64	0.91	1.20	5.0	Publishing/TV
24/17	412	17	1.01	17	4	75	88	75.3	12	0.76	1.17	1.14	11.4	Fuel
52/28	667	26	0.00	0	54	68	36	386.3	12	1.45	1.89	2.23	1.3	Nonbank financial
61/22	533	40	0.00	0	NA	16	31	NA	12	NA	1.40	1.88	4.8	Services

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN ON		ASSETS
							MONTHS	CHANGE	1995	1994		EQUITY	1995
651	AES	1715	24	613	685	29	106.6	8	15.6	18.5	10.0	21.9	2226
652	DST SYSTEMS	1713	NA	NR	NA	NA	NA	NA	NA	NA	NA	NA	662
653	CENTOCOR	1705	57	748	79	17	–57.1	NM	NM	NM	NM	NM	260
654	TERADYNE	1704	29	635	1191	53	159.3	109	13.4	9.8	20.6	21.0	1030
655	MEDITRUST	1702	34	660	209	21	120.0	49	57.3	46.5	NA	11.7	1892
656	CUMMINS ENGINE	1693	11	495	5245	11	224.0	–11	4.3	5.3	18.0	19.3	3056
657	AMBAC	1692	19	599	254y	8	167.6	19	66.0	59.8	11.3	11.9	5309
658	NEW YORK STATE ELECTRIC & GAS	1689	10	575	2010	6	196.7	5	9.8	9.9	7.6	10.3	5093
659	NATIONAL SERVICE INDUSTRIES	1687	27	634	1982	4	96.3	14	4.9	4.4	12.6	12.7	1140
[illegible]	CALLAWAY GOLF	1684	47	715	553	23	97.7	25	17.7	17.4	48.4	48.4	290
661	BOISE CASCADE	1684	36	676	5074	23	351.9	NM	6.9	NM	13.8	25.0	4656
662	HARSCO	1671	53	745	1495	10	97.4	13	6.5	6.4	14.5	15.6	1316
663	CALIBER SYSTEM	1667	–22	438	2448	3	92.4	–6	3.8	4.1	9.4	9.4	2064
664	OKLAHOMA GAS & ELECTRIC	1665	17	603	1302	–4	125.3	1	9.6	9.1	9.6	13.1	2755
665	MCN	1665	52	738	1585	3	106.4	33	6.7	5.2	8.9	15.2	2365
666	TOSCO	1654	55	763	7284	14	77.1	–8	1.1	1.3	9.2	12.9	2000
667	FLIGHTSAFETY INTERNATIONAL	1644	18	609	326	8	84.5	13	25.9	24.7	14.0	14.4	844
668	AUTODESK	1640	–12	503	534y	18	87.8	55	16.4	12.5	24.2	24.2	518
669	UCAR INTERNATIONAL	1632	NA	NR	901	19	25.0	–75	2.8	13.2	9.9	NM	864
[illegible]	MGM GRAND	1622	25	632	722	–3	46.6	–37	6.5	9.9	NA	8.5	1252
671	ADTRAN	1620	68	NR	181	47	29.5	58	16.2	15.1	21.1	24.1	166
672	PHYCOR	1620	213	NR	442	82	21.9	87	5.0	4.8	NA	5.8	650
673	ALUMAX	1618	27	656	2926	6	237.4	408	8.1	1.7	13.7	16.9	3135
674	U.S. SURGICAL	1615	35	699	1022	11	79.2	313	7.7	2.1	9.8	8.1	1266
675	VARIAN ASSOCIATES	1615	31	674	1581	18	113.5	54	7.2	5.5	24.4	28.0	954
676	TRANSATLANTIC HOLDINGS	1612	22	636	1165	14	131.9	30	11.3	10.0	14.1	14.1	3899
677	TJX	1611	65	812	3805a	9	62.8	–40	1.7	3.0	8.4	11.6	1903
678	BEMIS	1610	16	610	1523	10	85.2	17	5.6	5.2	13.6	16.6	1031
679	PMI GROUP	1608	NA	NR	390a	8	127.8	29	32.8	27.5	15.6	16.5	1290
[illegible]	MAPCO	1608	–2	549	3310y	8	74.7	–6	2.3	2.6	8.0	11.5	2231
681	STORAGE TECHNOLOGY	1606	67	826	1929	3	–142.3	NM	NM	1.7	NM	–16.0	1889
682	LEUCADIA NATIONAL	1600	22	642	1485a	11	78.5	8	5.3	5.4	4.9	7.4	5136
683	PUGET SOUND POWER & LIGHT	1599	17	617	1179	–1	135.7	13	11.5	10.1	8.3	10.2	3269
684	WOOLWORTH	1597	21	466	8347a	–2	33.0	NM	0.4	NM	5.7	2.4	4444
685	ALLMERICA PROPERTY & CASUALTY	1594	32	694	2077a	4	143.6	43	6.9	5.1	9.8	9.7	5700
686	DOLLAR GENERAL	1592	1	505	1674a	24	82.1	31	4.9	4.7	22.2	21.0	769
687	UNIFI	1591	–17	485	1597	10	96.2	16	6.0	5.7	13.1	16.6	1011
688	OUTBACK STEAKHOUSE	1590	42	724	664	39	53.7	36	8.1	8.3	24.5	24.3	337
689	KOMAG	1582	174	NR	512	31	106.8	83	20.9	14.9	19.1	18.6	686
[illegible]	FOSTER WHEELER	1578	35	708	3042	36	28.5	–56	0.9	2.9	NA	5.7	2556
691	KANSAS CITY POWER & LIGHT	1571	6	589	886	2	122.6	17	13.8	12.1	8.6	13.2	2883
692	TELEDYNE	1569	22	651	2568	7	162.0	NM	6.3	NM	23.4	40.5	1606
693	ECKERD	1568	86	899	4798	8	93.0	34	1.9	1.6	19.7	2631.1	1539
694	MANVILLE	1568	42	732	2777a	14	154.8	216	5.6	2.0	NA	12.7	4025
[illegible]	REYNOLDS & REYNOLDS	1565	37	719	936	13	81.1	15	8.7	8.6	NA	24.4	775
[illegible]	PORTLAND GENERAL	1562	52	781	984	3	90.8	–13	9.2	10.8	6.7	9.3	3448
697	WEATHERFORD ENTERRA	1561	234	NR	402a	9	35.8	17	8.9	8.3	10.9	11.4	1300
698	LEXMARK INTERNATIONAL GROUP	1553	NA	NR	2158	17	48.0	7	2.2	2.4	18.1	14.8	1143
699	SECURITY CAPITAL PACIFIC TRUST	1553	84	897	265	42	84.3	80	31.8	25.1	6.2	6.5	1724
[illegible]	WATSON PHARMACEUTICALS	1551	252	NR	153	61	47.9	31	31.3	38.5	18.0	16.6	322

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ATION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH/ LOW	PRICE	RATIO	YIELD	PAYOUT	TOTAL RETURN	HOLDING	MIL		FY	ACTUAL	ACTUAL $	ANALYSTS' ESTIMATES EST	ATION	
25/16	353	18	0.00	0	32	41	70	49.9	12	1.30	1.40	1.60	2.5	Utilities
NA/NA	NA	NA	NA	NA	NA	NA	50	NA	12	NA	–0.94d	1.43	1.4	Services
35/10	NEG	NM	0.00	0	53	52	59	428.0	12	–2.55	–0.98	–0.01	NM	Health care
43/18	224	11	0.00	0	13	89	83	247.9	12	0.96	1.89	2.65	4.9	Electrical & electronics
37/29	166	13	8.18	108	12	53	51	60.4	12	2.28	2.52	NA	NA	Housing
49/34	146	8	2.37	18	–5	74	40	106.7	12	6.11	5.52	4.31	13.2	Automotive
49/39	121	10	1.24	13	20	90	35	49.7	12	4.01	4.78	4.95	2.2	Nonbank financial
27/20	98	9	5.93	56	16	41	72	56.3	12	2.37	2.49	2.54	4.3	Utilities
35/26	223	18	3.33	60	34	60	48	40.3	08	1.67	1.93	2.13	0.9	Electrical & electronics
25/11	834	17	1.01	17	42	37	71	352.0	12	1.07	1.40	1.63	3.7	Leisure
48/31	129	7	1.70	11	11	75	48	212.3	12	–3.08b	5.39	3.53	38.5	Paper
67/42	267	17	2.30	39	56	54	25	39.9	12	3.45	3.86	4.59	2.8	Manufacturing
57/35	170	18	3.31	60	–8	46	39	103.9	12	0.50	2.34	2.50	10.0	Transportation
44/33	178	14	6.45	87	24	22	40	45.6	12	3.01	3.05	3.14	2.2	Utilities
26/18	261	17	3.70	62	42	49	66	37.6	12	1.31	1.49	1.63	1.8	Utilities
49/28	276	22	1.43	31	57	95	37	99.9	12	2.24b	2.04	3.19	9.7	Fuel
54/44	280	20	1.05	21	21	54	31	30.0	12	2.35	2.71	3.05	2.3	Transportation
53/28	452	20	0.68	14	–9	84	46	381.5	01	1.14	1.76	2.17	6.0	Software/services
36/25	NEG	68	0.00	0	NA	35	46	NA	12	2.09	0.52	2.82	2.8	Electrical & electronics
34/23	297	35	0.00	0	23	16	49	62.8	12	1.50	0.96	1.51	9.9	Leisure
56/25	1327	58	0.00	0	62	14	37	117.7	12	0.63	0.75	0.97	2.1	Telecommunications
56/18	428	75	0.00	0	122	90	36	308.3	12	0.48	0.61	0.83	3.6	Health care
40/24	120	8	0.00	0	26	90	45	134.2	12	NA	4.33	3.98	20.6	Metals
28/19	218	27	0.28	8	35	51	57	214.0	12	0.08	1.05	1.28	6.3	Health care
57/37	398	17	0.54	9	43	78	31	139.3	09	2.22	3.01	3.97	2.3	Electrical & electronics
75/57	172	12	0.57	7	23	87	23	30.3	12	4.44	5.75	6.07	2.5	Nonbank financial
23/11	335	22	1.26	28	68	85	72	133.3	01	1.03	0.99d	1.28	10.9	Retailing
34/25	314	19	2.35	44	15	50	53	36.7	12	1.40	1.63	1.84	2.2	Containers
54/36	196	12	0.44	5	NA	75	35	NA	12	3.03	3.85	4.19	1.4	Nonbank financial
59/49	247	22	1.83	40	2	74	30	57.7	12	2.64	2.51	4.55	2.0	Fuel
32/18	167	NM	0.00	0	40	48	53	270.2	12	0.66	–2.91	2.33	7.7	Computers
30/21	151	NA	0.94	NA	15	14	60	30.4	12	1.22	NA	NA	NA	Nonbank financial
26/20	136	13	7.32	97	25	25	64	36.1	12	1.64	1.89	1.92	2.1	Utilities
19/9	117	41	0.00	0	–21	50	133	144.9	01	0.36	0.29d	0.86	20.9	Retailing
27/18	110	11	0.62	7	33	87	62	15.2	12	1.64	2.28	2.58	6.6	Nonbank financial
34/19	417	22	0.72	16	0	78	58	157.4	01	1.06	1.26d	1.54	3.2	Retailing
28/21	275	15	2.14	31	–12	69	66	51.7	06	1.08	1.67	1.58	5.7	Manufacturing
38/23	721	31	0.00	0	36	58	45	230.7	12	0.89	1.15	1.51	2.7	Leisure
37/12	275	15	0.00	0	149	85	50	845.5	12	1.27	2.14	2.92	4.1	Computers
46/31	317	56	1.77	99	37	66	36	106.3	12	1.83	0.79	2.42	2.1	Services
27/22	175	13	6.15	81	13	24	62	42.8	12	1.64	1.92	1.95	2.6	Utilities
29/22	397	10	1.42	14	26	42	56	58.0	12	–0.15	2.88	2.49	4.0	Conglomerates
47/25	NM	15	0.00	0	71	97	35	88.0	01	2.41	2.95d	3.22	1.6	Health care
15/9	153	17	0.00	0	42	18	123	17.3	12	0.33	0.76d	1.12	22.3	Paper
40/26	470	20	1.27	26	39	77	41	54.7	09	1.51	1.85	2.15	1.4	Office equipment
32/19	180	19	3.92	75	56	41	51	58.8	12	1.86	1.60	2.37	10.1	Utilities
32/17	497	26	0.00	0	78	49	51	65.8	12	1.08	1.18d	1.59	3.1	Fuel
23/16	478	35	0.00	0	NA	NA	69	NA	12	–0.46	0.64	NA	NA	Software/services
22/16	161	23	5.45	126	35	41	72	25.1	12	0.66	0.93	NA	NA	Housing
51/25	536	33	0.00	0	67	68	36	204.0	12	1.05	1.29	1.89	2.6	Health care

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS				ASS
		$ MIL	CHANGE	RANK	$ MIL		12 MONTHS 1995 $ MIL	CHANGE FROM 1994	12 MONTHS 1995	MONTHS 1994	ON INVESTED CAPITAL	ON COMMON EQUITY	$ M
701	FIRST EMPIRE STATE	1550	42	739	992	23	131.0	12	13.2	14.6	18.0	15.8	11
702	SHAW INDUSTRIES	1546	–29	437	2870	3	64.4	51	2.2	4.7	NA	9.2	1
703	KING WORLD PRODUCTIONS	1544	18	641	589	20	133.1	49	22.6	18.2	21.4	21.4	
704	APRIA HEALTHCARE GROUP	1543	167	NR	NA	NA	NA	NA	NA	NA	NA	NA	
705	CHARTER ONE FINANCIAL	1542	231	NR	1040	145	32.0	105	3.1	3.7	NA	4.0	13
706	VISHAY INTERTECHNOLOGY	1539	19	621	1224	24	92.7	57	7.6	6.0	10.4	10.4	1
707	A. G. EDWARDS	1539	11	611	1341	11	153.8	16	11.5	10.9	15.1	14.8	2
708	PROVIDENT	1538	44	766	2565y	–8	115.6	–15	4.5	4.8	6.3	7.0	16
709	SOUTHLAND	1537	–10	533	6817y	1	167.6	82	2.5	1.4	NM	NM	2
710	T. ROWE PRICE ASSOCIATES	1536	68	847	439y	15	76.5	25	17.4	16.0	31.8	27.9	
711	SIGNET BANKING	1535	–28	442	1083a	11	144.9	–8	13.4	16.1	NA	15.9	11
712	PRESSTEK	1534	354	NR	28	67	2.9	55	10.4	11.2	14.7	14.7	
713	NOBLE AFFILIATES	1533	20	657	487y	36	4.1	29	0.8	0.9	NM	1.0	1
714	CORRECTIONS CORP. OF AMERICA	1533	408	NR	207	36	14.3	81	6.9	5.2	NA	16.0	
715	VARITY	1532	1	565	2375	7	125.0	6	5.3	5.3	14.4	15.2	1
716	ILLINOIS CENTRAL	1525	6	595	644	8	121.9	7	18.9	19.2	17.4	26.6	1
717	SENSORMATIC ELECTRONICS	1524	–25	462	992	30	–23.8	NM	NM	11.0	NA	–2.7	1
718	BETHLEHEM STEEL	1522	–12	526	4868	1	179.6	123	3.7	1.7	12.3	10.8	5
719	TEKTRONIX	1522	45	771	1649	18	95.9	27	5.8	5.4	NA	14.8	1
720	BED BATH & BEYOND	1517	85	916	553	38	35.8	30	6.5	6.9	24.0	26.1	
721	IPALCO ENTERPRISES	1509	22	672	709	3	102.0	6	14.4	14.0	8.8	11.9	2
722	FINA	1502	26	702	3607	5	104.4	2	2.9	3.0	7.9	8.6	2
723	CORPORATE EXPRESS	1499	143	NR	964	96	16.4	NM	1.7	NM	4.3	3.8	
724	K-III COMMUNICATIONS	1492	NA	NR	1046	8	–75.5	NM	NM	NM	NA	NM	1
725	SUNGLASS HUT INTERNATIONAL	1485	164	NR	369a	42	19.7	23	5.3	6.1	10.5	13.3	
726	ROYAL CARIBBEAN CRUISES	1482	–8	556	1184	1	149.0	5	12.6	12.2	10.3	16.3	2
727	ORNDA HEALTHCORP	1481	124	NR	1918y	35	77.9	NM	4.1	NM	10.5	12.7	2
728	GLOBAL MARINE	1471	117	NR	468	30	51.9	981	11.1	1.3	16.9	20.5	
729	LCI INTERNATIONAL	1466	125	NR	673	45	50.8	647	7.6	1.5	NM	21.2	
730	ENSCO INTERNATIONAL	1462	104	997	279	14	41.8	24	15.0	13.7	NA	8.1	
731	FORT HOWARD	1458	NA	NR	1621	27	33.5	NM	2.1	NM	21.9	NM	1
732	SECURITY CAPITAL INDUSTRIAL TRUST	1455	35	752	159	121	48.7	94	30.7	35.0	NA	4.6	1
733	FINOVA GROUP	1454	57	843	782	53	97.6	31	12.5	14.5	5.2	11.8	6
734	BANPONCE	1449	46	805	1248y	24	146.4	17	11.7	12.4	NA	13.0	14
735	BOWATER	1447	19	682	2001	47	258.2	NM	12.9	NM	15.6	26.8	2
736	BANCORP HAWAII	1445	23	709	1019	9	121.8	3	11.9	12.6	13.2	11.7	12
737	THOMAS & BETTS	1443	10	643	1237	15	80.9	NM	6.5	0.2	NA	13.5	1
738	SUNGARD DATA SYSTEMS	1442	86	953	533	22	48.7	13	9.1	9.9	11.4	11.5	
739	LG&E ENERGY	1422	11	649	1403	69	89.1	42	6.4	7.6	7.7	10.4	2
740	MACROMEDIA	1419	333	NR	97	119	18.8	212	19.4	13.7	16.2	16.2	
741	LA QUINTA INNS	1417	23	718	414y	14	51.4	36	12.4	10.4	NA	15.4	
742	MICRO WAREHOUSE	1412	66	945	1308	68	45.1	61	3.5	3.6	16.4	16.4	
743	TIMKEN	1411	27	727	2231	16	112.4	64	5.0	3.5	12.8	13.7	1
[illegible]	MEMC ELECTRONIC MATERIALS	1408	NA	NR	887	34	87.3	147	9.8	5.4	12.9	14.4	1
[illegible]	UNION PLANTERS	1403	46	NR	862a	5	95.5	–22	11.1	14.9	NA	16.3	11
[illegible]	LOUISIANA LAND & EXPLORATION	1403	21	713	831y	4	18.8	NM	2.3	NM	5.0	5.2	1
[illegible]	ALLEGHANY	1398	28	744	1761	–4	85.3	25	4.8	3.7	6.4	6.8	4
[illegible]	[illegible] HOLDINGS	1397	62	886	737	11	58.3	–6	7.9	9.4	11.6	21.2	
[illegible]	[illegible]	1392	35	782	703	21	–59.9	NM	NM	7.0	NA	–11.4	1
[illegible]	VALE[illegible]TALTH	1389	8	580	1869y	15	–28.0	NM	NM	3.7	NM	–4.8	

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL	TURN OVER	FY	ACTUAL	ACTUAL	ANALYSTS ESTIMATES EST	ANALYSTS ESTIMATES ATION	
155	192	14	1.16	16	47	44	6	13.9	12	15.71b	17.78	20.53	5.5	Banks
/11	221	24	2.64	64	–25	62	136	82.4	12	0.91	0.47	0.79	15.2	Manufacturing
5/33	248	13	0.00	0	18	64	37	118.0	08	2.33	3.14	3.51	5.1	Leisure
5/20	584	22	0.00	0	39	74	49	340.7	12	1.11b	1.41d	1.63	1.8	Health care
5/20	183	46	2.34	108	70	37	45	99.9	12	2.92	0.74	3.49	5.2	Banks
/24	173	15	0.00	0	3	59	58	139.0	12	1.20	1.71	2.12	4.7	Electrical & electronics
/20	148	9	2.64	25	10	46	63	56.5	02	2.00	2.58d	2.74	7.3	Nonbank financial
/21	105	15	2.13	32	47	45	45	22.3	12	2.71	2.27	2.96	6.1	Nonbank financial
4/3	NEG	9	0.00	0	–10	7	410	9.2	12	0.22	0.40	0.26	23.1	Food
/31	560	22	1.56	34	70	50	29	130.1	12	2.00	2.50	2.84	7.7	Nonbank financial
3/18	182	12	3.08	36	24	57	59	89.3	12	2.59	2.24	2.32	3.0	Banks
/24	7887	NM	0.00	0	346	12	15	551.8	12	0.13	0.18	NA	NM	Manufacturing
/23	371	NM	0.52	200	21	75	50	86.8	12	0.06	0.08	0.96	22.9	Fuel
/12	1707	NM	0.00	0	302	37	32	92.0	12	0.27	0.38	0.71	2.8	Services
/33	190	13	0.00	0	3	87	41	107.7	01	2.61	2.99	3.86	2.3	Manufacturing
/33	333	13	3.11	40	13	92	41	117.5	12	2.67	2.91	3.38	2.7	Transportation
/14	170	22	1.05	23	–25	83	73	267.8	06	1.16	0.97	1.02	28.4	Electrical & electronics
/13	120	11	0.00	0	–13	74	111	167.6	12	0.35	1.24	1.00	68.0	Metals
/31	234	13	1.32	18	34	76	34	130.5	05	2.63	3.40d	4.17	4.3	Electrical & electronics
/18	1103	40	0.00	0	84	90	34	495.0	02	0.87	1.11d	1.41	1.4	Consumer products
/31	183	15	5.42	83	28	31	38	34.7	12	2.46	2.61	2.71	1.8	Utilities
/38	124	14	4.99	72	31	3	31	2.2	12	3.27	3.35	NA	NA	Fuel
/15	342	66	0.00	0	87	81	50	217.1	02	0.14	0.45d	0.72	5.6	Retailing
/10	NEG	NM	0.00	0	NA	0	128	NA	12	–0.64	–0.91	–0.28	85.7	Publishing/TV
/13	1004	53	0.00	0	103	90	54	296.9	01	0.36	0.52d	0.77	2.6	Retailing
/21	162	10	2.22	22	–6	NA	63	18.0	12	2.25	2.35	2.32	1.7	Leisure
/15	246	17	0.00	0	69	47	58	166.1	08	–1.29	1.53	1.66	1.8	Health care
0/4	581	30	0.00	0	115	66	166	157.9	12	0.03	0.30	0.48	10.4	Fuel
/10	688	36	0.00	0	107	69	64	77.8	12	0.02	0.63	0.78	6.4	Telecommunications
/12	284	35	0.00	0	105	73	61	99.6	12	0.61	0.69	1.18	8.5	Fuel
/12	NEG	40	0.00	0	NA	82	63	94.9	12	–6.02	0.57	1.71	5.8	Paper
/15	158	29	8.62	253	16	29	81	10.9	12	0.57	0.61	NA	NA	Housing
/32	176	15	1.65	25	62	80	27	60.9	12	2.94	3.51	4.06	1.2	Nonbank financial
/30	145	11	2.73	29	49	23	33	15.6	12	3.67	4.19	NA	NA	Banks
/30	163	7	1.62	11	13	92	39	300.0	12	–0.59b	5.48	7.07	13.9	Paper
/27	139	12	3.22	39	28	58	42	38.3	12	2.75	2.90	3.10	2.3	Banks
/62	240	18	3.11	55	11	77	20	64.7	12	0.10	4.05	4.86	2.9	Electrical & electronics
/20	341	28	0.00	0	66	70	42	118.8	12	1.12	1.23	1.56	1.9	Software/services
/37	178	17	5.16	88	16	29	33	34.2	12	1.72	2.51	3.05	3.9	Utilities
/15	1221	62	0.00	0	173	77	35	348.9	03	0.19	0.65d	0.88	4.5	Software/services
/24	423	27	0.37	10	9	64	52	76.8	12	0.78	0.99	1.42	0.7	Leisure
/29	514	32	0.00	0	65	83	30	338.4	12	1.01	1.48	1.89	1.1	Retailing
/33	172	13	2.67	33	29	73	31	65.6	12	2.21	3.60	4.46	9.9	Manufacturing
/23	233	12	0.00	0	NA	31	41	NA	12	NA	2.76	3.13	7.7	Electrical & electronics
/23	179	11	3.50	40	33	28	45	39.3	12	1.25b	2.70	3.29	3.0	Banks
/34	386	75	0.57	43	21	82	34	112.0	12	–6.80	0.56	1.07	25.2	Fuel
150	111	16	0.00	0	27	56	7	9.0	12	9.80	12.07	NA	NA	Nonbank financial
/19	508	22	0.00	0	64	54	43	83.3	02	1.20	1.49d	1.73	10.4	Software/services
/25	265	NM	0.00	0	18	72	45	130.6	12	0.95	–1.36	1.34	0.7	Software/services
/21	237	NM	0.00	0	–31	62	54	173.9	12	1.19	–0.51	1.64	9.8	Health care

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASS
		$ MIL		RANK	$ M		$ M		12 MONTHS 1995	12 MONTHS 1994	ON INVESTED CAPITAL	ON COMMON EQUITY	$ M
751	CABLEVISION SYSTEMS	1387	5	637	1078	29	–317.5	NM	NM	NM	NM	NM	2
752	TRINITY INDUSTRIES	1387	4	628	2474	16	109.2	39	4.4	3.7	14.0	15.1	1
753	GREENPOINT FINANCIAL	1384	8	NR	732	24	107.5	–5	14.7	19.1	NA	6.9	14
754	REVLON	1381	NA	NR	1936	12	–41.7	NM	NM	NM	NA	NA	1
755	NINE WEST GROUP	1378	42	813	NA	NA	NA	NA	NA	NA	NA	NA	1
756	CONSECO	1372	74	878	2855	59	222.5	44	7.8	8.6	13.6	24.6	17
757	CENTRAL FIDELITY BANKS	1367	28	762	801a	16	77.9	–30	9.7	16.3	10.0	13.4	10
758	SIMON PROPERTY GROUP	1364	16	704	555	17	62.6	51	11.3	8.7	11.4	42.2	2
759	STONE CONTAINER	1363	–36	446	7351	28	444.5	NM	6.0	NM	13.1	46.1	6
760	FASTENAL	1361	53	870	223	37	27.4	47	12.3	11.5	31.5	31.5	
761	UTILICORP UNITED	1356	5	645	2799	17	79.8	–15	2.9	3.9	6.5	8.3	3
762	FIRST VIRGINIA BANKS	1354	13	696	608	14	111.6	–1	18.4	21.2	NA	13.1	8
763	ALLMERICA FINANCIAL	1353	NA	NR	NA	NA	121.6	NA	NA	NA	9.0	11.6	17
764	A. H. BELO	1352	21	728	735	17	66.6	–3	9.1	11.0	8.9	17.1	1
765	CIPSCO	1350	34	793	842	0	75.9	–13	9.0	10.4	8.0	10.8	1
766	WARNACO GROUP	1346	102	NR	916	16	49.6	–22	5.4	8.0	10.9	9.8	
767	ORYX ENERGY	1344	18	722	1129y	5	158.0	NM	14.0	NM	38.3	NM	1
768	DELMARVA POWER & LIGHT	1344	15	703	995	0	117.5	8	11.8	10.9	8.1	11.7	2
769	TCF FINANCIAL	1340	95	NR	720	6	61.7	–12	8.6	10.4	NA	11.6	7
770	NICOR	1339	5	654	1480	–8	99.8	–9	6.7	6.8	NA	14.9	2
771	LTV	1339	–18	550	4283	1	193.5	49	4.5	3.1	12.7	12.8	5
772	PROMUS HOTEL	1336	NA	NR	236	6	43.8	20	18.5	16.3	17.1	27.6	
773	BOSTON EDISON	1326	19	726	1629	5	112.3	–10	6.9	8.1	7.9	9.5	3
774	COMMERCE BANCSHARES	1326	28	780	732	25	107.6	12	14.7	16.4	NA	12.2	9
775	CONTINENTAL AIRLINES	1324	467	NR	5825	3	226.0	NM	3.9	NM	19.2	83.1	4
776	FHP INTERNATIONAL	1324	23	759	4021	25	23.1	–71	0.6	2.5	2.3	-0.3	2
777	SUNBEAM	1320	–33	475	1203	0	50.6	–53	4.2	8.9	7.4	8.4	1
778	OHIO CASUALTY	1319	9	687	1462	–3	95.4	4	6.5	6.1	NA	9.1	4
779	FIRST AMERICAN	1318	47	859	730	23	103.1	6	14.1	16.3	NA	16.1	9
780	VIGORO	1317	90	NR	934	28	69.9	44	7.5	6.7	16.3	27.4	
781	SOUTHWESTERN PUBLIC SERVICE	1315	10	701	848	2	121.5	25	14.3	11.8	10.8	16.2	1
782	ELECTRONIC ARTS	1312	27	778	521	6	45.7	–16	8.8	11.1	15.7	15.9	
783	FRITZ	1310	88	NR	NA	NA	NA	NA	NA	NA	NA	NA	
784	RIVERWOOD INTERNATIONAL	1305	20	746	1342	5	45.5	344	3.4	0.8	7.9	8.1	2
785	SHARED MEDICAL SYSTEMS	1294	64	943	651y	18	39.8	13	6.1	6.4	16.9	16.5	
786	STANDARD FEDERAL BANCORPORATION	1290	38	836	991	19	119.5	0	12.1	14.3	NA	13.0	13
787	SYNOPSYS	1290	51	898	287	33	34.5	105	12.0	7.8	NA	18.7	
788	SCIENTIFIC-ATLANTA	1289	–28	522	1140	19	47.1	–21	4.1	6.3	10.3	10.2	
789	AMERICAN WATER WORKS	1289	34	817	803	4	92.1	17	11.5	10.2	7.4	11.0	3
790	NEW WORLD COMMUNICATIONS GROUP	1286	19	755	605	52	–28.9	NM	NM	NM	NM	–9.6	2
791	CYTEC INDUSTRIES	1284	152	NR	1260	14	282.2	403	22.4	5.1	NM	79.2	1
792	DIAMOND OFFSHORE DRILLING	1284	NA	NR	337a	9	–7.0	NM	NM	NM	NM	–4.7	
793	WESCO FINANCIAL	1283	43	858	112a	14	29.0	19	25.8	24.7	3.5	3.4	1
794	AGCO	1283	129	NR	2125	56	129.1	12	6.1	8.5	14.8	21.6	2
795	HIBERNIA	1282	39	971	621y	16	123.9	30	20.0	17.7	NA	17.3	7
796	QUESTAR	1282	10	711	649	–3	83.8	70	12.9	7.4	10.7	12.0	1
797	BROOKLYN UNION GAS	1282	9	710	1252	–6	93.7	6	7.5	6.6	8.2	10.8	2
[illegible]	UNITED ASSET MANAGEMENT	1282	23	772	698	42	67.3	14	9.6	12.0	7.5	13.7	1
[illegible]	WALLACE COMPUTER SERVICES	1279	82	NR	812	30	66.6	37	8.2	7.8	13.6	14.2	
[illegible]	LAFARGE	1277	6	683	1472	–6	129.6	61	8.8	5.2	NA	13.5	1

ALPHABETICAL INDEX OF COMPANIES BEGINS O

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
52 MONTH HIGH/ LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	[illegible]	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL.	TURNOVER	[illegible]	[illegible] ACTUAL $	[illegible] ACTUAL $	ANALYSTS' ESTIMATES [illegible] EST $	ANALYSTS' ESTIMATES [illegible] ATION	
70/50	NEG	NM	0.00	0	4	38	24	60.5	12	–13.72	–14.17	–8.23	33.7	Publishing/TV
40/28	192	13	2.04	26	2	73	42	90.7	03	2.20	2.65d	3.06	8.5	Transportation
30/21	89	12	3.02	35	17	60	52	213.0	12	2.38	2.29	2.59	12.0	Nonbank financial
NA/NA	NA	NA	NA	NA	NA	NA	50	NA	12	NA	–0.98	NA	NA	Consumer products
49/27	402	19	0.00	0	40	89	35	145.7	01	1.85	2.03d	2.53	2.4	Consumer products
59/35	166	8	0.12	1	91	51	20	165.9	12	5.00b	8.52	6.75	8.3	Nonbank financial
35/25	174	13	3.53	45	29	36	40	44.0	12	2.17	2.65	2.87	1.7	Banks
26/21	943	22	8.43	182	4	47	58	51.2	12	0.88	1.08	NA	NA	Housing
25/12	144	4	4.36	15	–39	69	99	272.3	12	NA	3.89	2.00	40.5	Containers
43/23	1562	50	0.06	3	54	54	38	129.0	12	0.49	0.72	0.93	2.2	Retailing
30/27	145	17	5.97	103	8	23	46	30.3	12	2.06b	1.71	2.20	2.7	Utilities
44/33	159	12	3.51	43	17	27	34	25.7	12	3.51	3.28	3.54	1.7	Banks
29/23	108	9	0.74	7	NA	1	50	NA	12	NA	2.91	2.67	2.2	Nonbank financial
37/28	348	21	0.91	19	25	48	39	53.9	12	1.71	1.68	1.99	2.0	Publishing/TV
41/28	203	19	5.15	97	41	26	34	35.6	12	2.46	2.11	2.54	2.4	Utilities
27/15	266	24	1.08	25	64	75	52	99.5	12	1.53	1.10	1.55	2.6	Consumer products
15/11	NEG	8	0.00	0	12	70	104	93.7	12	–0.68	1.54	0.63	23.8	Fuel
24/19	146	12	6.96	86	19	23	61	32.4	12	1.67	1.79	1.80	1.7	Utilities
38/20	254	22	1.66	37	87	62	36	64.9	12	2.32	1.71	2.98	3.0	Nonbank financial
29/24	200	14	4.81	65	13	50	50	27.7	12	2.07	1.96	2.05	1.5	Utilities
7/13	89	7	0.00	0	–17	77	105	99.2	12	1.29	1.79	1.20	36.7	Metals
26/20	843	30	0.00	0	NA	66	51	NA	12	NA	0.86	1.04	1.9	Leisure
30/23	130	13	6.81	90	20	37	48	48.3	12	2.41	2.08	2.58	1.2	Utilities
38/29	150	13	1.90	24	26	36	37	24.4	12	2.71	2.85	3.15	1.6	Banks
51/8	509	8	0.00	0	449	36	28	124.0	12	–23.76b	6.29	6.77	9.2	Transportation
34/20	114	NM	0.00	0	22	82	40	229.1	06	1.71	0.29	1.50	7.3	Health care
25/13	220	26	0.25	7	–34	52	82	103.4	12	1.30	0.61	1.14	6.1	Consumer products
40/29	126	14	4.30	60	15	55	35	55.8	12	2.70	2.67	3.29	6.1	Nonbank financial
50/33	207	12	2.51	31	33	34	30	104.6	12	3.48	3.64	4.21	1.4	Banks
57/33	533	19	1.39	27	90	53	20	125.1	12	2.43	3.41	4.17	4.3	Chemicals
34/27	183	11	6.85	79	18	27	41	41.7	08	2.38	2.80	2.51	5.2	Utilities
42/20	456	30	0.00	0	16	83	52	610.1	03	1.07	0.84d	1.12	10.7	Software/services
44/23	690	29	0.00	0	36	62	34	153.6	05	0.87	1.35d	1.74	4.6	Transportation
26/16	233	29	0.81	23	21	18	66	21.9	12	0.16	0.69	1.55	25.8	Containers
58/32	537	33	1.51	50	64	71	23	299.5	12	1.51	1.68	1.91	1.6	Software/services
42/26	141	11	1.84	21	42	72	31	91.5	12	3.70	3.70	4.26	4.0	Nonbank financial
39/23	707	44	0.00	0	39	87	39	263.8	09	0.42	0.75	1.19	2.5	Software/services
25/11	279	20	0.36	7	–28	82	76	194.6	06	0.46	0.83	0.52	7.7	Telecommunications
41/28	161	14	3.68	53	33	39	34	23.6	12	2.34	2.64	2.58	1.6	Utilities
25/14	359	NM	0.00	0	19	27	69	131.5	12	–0.81	–0.50	0.11	81.8	Publishing/TV
78/32	375	18	0.00	0	99	40	17	78.0	12	2.51b	4.30	5.28	0.9	Chemicals
40/23	851	NM	0.00	0	NA	NA	35	NA	12	–0.70	–0.14	NA	NA	Fuel
2/116	149	NA	0.59	NA	44	87	7	2.0	12	2.66	NA	NA	NA	Nonbank financial
29/12	218	12	0.15	2	110	47	47	171.0	12	2.35b	2.30	2.71	3.7	Manufacturing
11/7	179	10	2.60	27	42	29	119	54.1	12	0.78	1.05	0.88	4.5	Banks
35/28	184	15	3.75	58	13	78	41	45.8	12	1.21	2.05	2.33	3.4	Utilities
30/23	149	14	5.44	75	12	29	49	26.6	09	1.85	1.90	2.01	2.0	Utilities
44/35	260	20	2.81	55	18	67	30	76.2	12	2.00	2.17	2.44	2.1	Nonbank financial
50/31	273	23	1.54	35	82	61	23	157.4	07	2.13	2.46	3.42	2.6	Office equipment
22/17	133	10	2.16	21	6	27	69	22.8	12	1.18	1.88	2.11	14.7	Housing

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	COMPANY	MARKET VALUE $M	CHANGE %	EST. AGO $M	SALES 12 MONTHS $M	CHANGE %	PROFITS 12 MONTHS $M	CHANGE % 1994	MARGIN % 12 MONTHS 1995	MARGIN % 1 MONTHS 1994	RETURN % ON NET CAPITAL	RETURN % ON COMMON EQUITY	ASS 12 MONTHS 199 $M
801	WEIS MARKETS	1275	14	725	1646	6	79.4	4	4.8	4.9	10.0	10.0	9
802	QUINTILES TRANSNATIONAL	1275	265	NR	156	74	11.3	69	7.2	7.4	9.4	7.1	2
803	MERCANTILE BANKSHARES	1273	27	819	537a	14	100.4	13	18.7	18.8	14.3	13.9	63
804	ETHYL	1273	5	688	960	–6	74.0	–19	7.7	9.0	13.0	18.3	9
805	ALBEMARLE	1272	35	831	1244	15	78.2	53	6.3	4.7	10.2	13.1	12
806	ASARCO	1272	11	716	3198	57	169.2	164	5.3	3.2	9.8	9.6	43
807	ULTRAMAR	1271	28	807	2714	7	47.6	–30	1.8	2.7	NA	8.2	20
808	OMNICARE	1270	106	NR	400	30	24.8	83	6.2	4.4	NA	11.9	3
809	CRACKER BARREL OLD COUNTRY STORE	1265	–7	620	850	20	67.4	10	7.9	8.7	12.6	13.1	6
810	JEFFERSON SMURFIT	1263	–42	429	4093	27	247.3	NM	6.0	0.4	23.1	NM	28
811	VALUJET	1262	228	NR	368	175	67.8	227	18.4	15.5	33.5	47.7	3
812	HEALTH CARE & RETIREMENT	1259	29	806	713	16	50.6	20	7.1	6.8	11.2	14.0	7
813	INPUT/OUTPUT	1259	165	NR	198	66	28.2	33	14.2	17.8	14.1	18.1	3
814	CBI INDUSTRIES	1259	37	849	1916a	7	53.4	NM	2.8	NM	5.6	6.5	21
815	CENTERIOR ENERGY	1258	–13	596	2516	4	281.2	4	11.2	11.1	8.0	11.1	106
816	STARBUCKS	1255	50	902	519	57	27.0	92	5.2	4.3	5.3	8.4	6
817	VONS	1252	45	888	5071	1	68.1	156	1.3	0.5	8.1	10.9	21
818	ALLEGHENY LUDLUM	1249	–16	584	1494	39	114.8	530	7.7	1.7	22.6	30.6	11
819	WISCONSIN CENTRAL TRANSPORTATION	1248	65	966	263	25	44.6	17	16.9	18.1	15.2	19.8	4
820	SEALED AIR	1246	49	876	723	39	52.7	42	7.3	7.2	24.9	60.4	4
821	PRUDENTIAL REINSURANCE HOLDINGS	1245	NA	NR	949	–3	0.7	–93	0.1	1.1	0.1	0.1	46
822	COMPASS BANCSHARES	1241	22	791	766a	25	108.1	12	14.1	15.8	NA	16.4	102
823	BRIGGS & STRATTON	1240	23	794	1264	–7	80.3	–29	6.4	8.3	16.6	18.1	9
824	CONSOLIDATED STORES	1238	39	864	1512	18	64.4	17	4.3	4.3	14.2	18.5	7
825	TECUMSEH PRODUCTS	1236	21	785	1716	12	119.2	–1	6.9	7.8	14.1	13.6	14
826	SONAT OFFSHORE DRILLING	1234	108	NR	323	33	46.9	269	14.6	5.2	NA	13.3	5
827	FIRST COMMERCE	1234	78	NR	593a	17	80.2	–13	13.5	18.2	14.9	12.5	83
828	BANDAG	1233	–21	567	740	14	97.0	3	13.1	14.4	NA	24.0	5
829	CHRIS-CRAFT INDUSTRIES	1232	22	789	472	–2	22.0	–66	4.7	13.5	2.5	1.6	22
830	CRANE	1230	36	855	1782	8	76.3	36	4.3	3.4	14.3	20.4	9
831	OAKLEY	1227	NA	NR	173	39	39.6	49	22.9	21.5	55.4	62.0	
832	EQUITABLE OF IOWA	1227	17	769	765	17	84.9	–14	11.1	15.1	11.6	9.5	97
833	FLEETWOOD ENTERPRISES	1226	22	792	2795	–2	80.0	–13	2.9	3.2	10.1	12.5	13
834	FIRST COLONY	1220	11	737	1658	21	151.4	42	9.1	7.8	10.5	11.7	107
835	HORIZON/CMS HEALTHCARE	1215	119	NR	1218y	21	8.2	–65	0.7	2.4	1.9	1.3	14
836	INTERNATIONAL SPECIALTY PRODUCTS	1213	74	NR	689	15	67.4	47	9.8	7.6	8.9	10.7	13
837	BETZ LABORATORIES	1212	–2	675	752	6	68.3	–7	9.1	10.3	NA	18.2	5
838	KLA INSTRUMENTS	1210	–10	627	569	76	101.9	204	17.9	10.4	22.2	21.9	6
839	MEREDITH	1210	81	NR	894	12	45.8	31	5.1	4.4	16.0	17.4	7
840	SUMMIT BANCORPORATION*	1209	83	NR	432	16	72.5	197	16.8	6.6	12.6	14.5	56
841	ECHOSTAR COMMUNICATIONS	1208	NA	NR	164	–14	–11.5	NM	NM	0.0	NM	–8.7	5
842	NATIONAL FUEL GAS	1204	18	790	1013	–9	77.7	–9	7.7	7.7	8.7	9.5	23
843	MERCURY GENERAL	1200	40	892	683	17	90.3	36	13.2	11.4	16.4	16.0	10
844	MARK IV INDUSTRIES	1200	20	749	2039	42	89.3	44	4.4	4.3	9.4	12.6	19
845	USG	1199	11	751	2444	7	–32.0	NM	NM	NM	NM	NM	18
846	LONE STAR STEAKHOUSE & SALOON	1198	44	907	341	58	46.7	60	13.7	13.5	NA	15.8	3
847	ROBERT HALF INTERNATIONAL	1197	73	NR	629	41	40.3	54	6.4	5.9	19.2	19.0	2
848	CIRRUS LOGIC	1197	19	798	1187	50	71.1	24	6.0	7.2	12.2	13.8	9
849	BEVERLY ENTERPRISES	1196	7	729	3243y	9	–8.1	NM	NM	2.6	NA	–1.7	25
850	ENSERCH EXPLORATION	1196	14	783	221	23	–12.5	NM	NM	4.2	NM	–1.3	17

*Acquired by UJB Financial on March 1, 1996

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

N			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
2-MONTH HIGH LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT. MIL	TURNOVER	FY	1994 ACTUAL $	1995 ACTUAL $	ANALYSTS' ESTIMATES 1996 EST $	ANALYSTS' ESTIMATES 5-YR ATION	
0/25	161	16	2.84	46	19	47	43	6.8	12	1.75	1.84	NA	NA	Food
9/17	802	NM	0.00	0	250	52	19	141.3	12	0.38	0.56	0.73	9.6	Health care
0/21	169	12	3.49	42	30	35	48	53.3	12	1.88	2.19	2.34	2.1	Banks
3/10	315	17	4.65	81	10	47	118	49.0	12	0.83	0.62	0.91	6.6	Chemicals
0/12	213	16	1.14	19	37	46	66	57.6	12	0.80	1.18	1.28	10.9	Chemicals
7/24	72	7	2.68	20	13	78	43	152.9	12	1.53	4.00	4.08	33.3	Metals
9/23	220	24	3.84	93	15	83	44	66.1	12	1.56	1.18	2.43	6.6	Fuel
9/21	613	56	0.25	14	99	93	26	122.3	12	0.60b	0.86	1.11	4.5	Health care
5/16	246	19	0.10	2	–7	31	60	189.2	07	0.94	1.09	1.22	1.6	Leisure
20/9	NEG	5	0.00	0	–42	55	111	53.3	12	0.12	2.23	1.74	13.8	Containers
35/7	888	20	0.00	0	220	29	55	509.7	12	0.44	1.13	1.40	5.0	Transportation
2/25	349	26	0.00	0	31	87	31	117.0	12	1.26	1.55	1.84	1.1	Health care
0/12	809	33	0.00	0	127	96	42	103.3	05	0.66	0.90d	1.16	3.4	Electrical & electronics
4/19	181	30	1.46	43	38	73	38	124.3	12	1.20	1.11d	1.46	9.6	Chemicals
11/8	63	6	9.41	54	–5	38	148	56.9	12	1.38	1.49	1.04	3.8	Utilities
4/11	389	49	0.00	0	48	65	71	517.2	09	0.17	0.36	0.48	2.1	Food
1/19	201	19	0.00	0	45	51	44	54.7	12	0.61	1.55	1.79	1.7	Food
3/16	333	11	2.85	31	–11	52	68	61.5	12	0.26	1.66	1.69	13.0	Metals
3/43	553	28	0.00	0	63	81	17	133.9	12	2.31	2.67	3.76	9.6	Transportation
3/20	1427	24	0.00	0	41	72	42	58.6	12	0.94	1.25	1.51	1.3	Manufacturing
5/19	127	NM	0.12	300	NA	4	51	NA	12	0.21	0.01	1.86	2.7	Nonbank financial
4/26	185	11	3.47	39	21	31	39	43.6	12	2.68	2.88	3.20	1.9	Banks
5/33	279	12	2.43	29	26	74	29	81.4	06	3.55	3.62	3.14	8.0	Manufacturing
6/16	356	20	0.00	0	37	99	48	96.4	01	1.15	1.32	1.63	2.5	Retailing
8/43	141	10	2.90	30	24	72	22	78.2	12	5.50	5.45	5.76	1.7	Housing
9/20	350	26	0.55	15	110	95	28	160.8	12	0.45	1.65	2.37	5.9	Fuel
5/24	216	17	4.29	74	28	30	38	57.9	12	2.25	1.89	3.21	7.2	Banks
6/49	305	13	1.76	24	–14	26	24	39.6	12	3.51	3.82	4.04	5.4	Automotive
6/33	94	58	0.00	0	23	41	29	42.0	12	2.17	0.73	0.66	63.6	Publishing/TV
3/29	328	16	1.85	30	37	51	30	57.7	12	1.86	2.50	2.85	3.2	Services
9/26	1685	29	0.00	0	NA	24	36	NA	12	0.40	1.17	1.37	4.4	Health care
0/31	137	14	1.40	20	18	52	32	34.8	12	3.11	2.68	3.62	1.4	Nonbank financial
9/18	191	14	2.23	32	26	69	46	100.1	04	1.82	1.86d	2.09	3.8	Leisure
9/21	97	8	1.62	13	12	58	49	37.8	12	2.10	3.00	2.58	2.3	Nonbank financial
8/17	194	15	0.00	0	–4	67	52	177.0	05	1.16	1.59d	1.96	3.6	Health care
12/6	192	18	0.00	0	77	14	98	15.8	12	0.46	0.68	0.77	3.9	Chemicals
6/39	348	20	3.38	69	2	72	28	66.1	12	2.30b	2.16	2.75	1.8	Chemicals
9/21	260	20	0.00	0	–17	90	50	619.4	06	0.69	1.20	2.33	1.7	Electrical & electronics
9/24	459	30	1.00	31	82	59	28	53.3	06	0.96	1.44	1.78	8.4	Publishing/TV
6/19	244	16	2.42	40	80	30	35	113.6	12	0.70	2.12	2.27	1.8	Banks
1/12	830	NM	0.00	0	NA	10	34	NA	12	–0.02	–0.36	NA	NA	Electrical & electronics
4/26	147	16	5.04	80	24	33	37	29.3	09	2.23	2.03	2.29	2.2	Utilities
2/29	212	13	1.83	24	43	33	27	48.9	12	2.43	3.31	3.54	2.0	Nonbank financial
4/17	170	13	0.60	8	6	65	60	37.5	02	1.29b	1.52d	1.77	4.5	Manufacturing
1/22	NEG	NM	0.00	0	10	71	45	98.9	12	–2.14	–0.71	3.95	3.8	Housing
5/25	404	26	0.00	0	29	74	38	277.9	12	0.82	1.25	1.64	1.8	Leisure
5/20	566	31	0.00	0	70	74	29	77.9	12	0.92	1.36	1.71	1.8	Services
1/17	233	25	0.00	0	12	87	64	1081.4	03	0.97	0.76d	1.48	30.4	Electrical & electronics
16/9	136	NM	0.00	0	–7	70	99	152.3	12	0.79	–0.16	0.76	9.2	Health care
15/9	128	NM	0.00	0	–5	11	126	15.3	12	0.12	–0.11	0.07	114.3	Fuel

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	COMPANY	MARKET VALUE			SALES		PROFITS				RETURN		ASS
						FROM	12 MONTHS 1995	CHANGE FROM	MARGIN 12 MONTHS 1995	MARGIN 12 MONTHS 1994	ON INVESTED	ON	$M
851	NGC	1192	300	NR	3666	10	92.7	120	2.5	1.3	NA	17.3	1
852	POTLATCH	1191	–5	665	1605	9	108.5	122	6.8	3.3	8.7	11.3	2
853	NEW PLAN REALTY TRUST	1190	8	733	138a	27	63.7	15	46.0	50.9	9.5	11.1	
854	MONTANA POWER	1189	–7	658	954	–5	56.9	–50	6.0	11.3	5.3	5.3	2
855	GEORGIA GULF	1187	–6	664	1082	13	186.5	53	17.2	12.8	58.8	368.4	
856	INLAND STEEL INDUSTRIES	1187	–7	653	4781	6	146.8	37	3.1	2.4	11.6	16.8	3
857	OMNIPOINT	1184	NA	NR	NA	NA	NA	NA	NA	NA	NA	NA	
858	FREEPORT-McMORAN	1182	–52	395	996	29	92.4	NM	9.3	NM	NM	NA	1
859	QUORUM HEALTH GROUP	1181	32	862	985	28	62.2	31	6.3	6.2	9.8	16.0	
860	READING & BATES	1173	162	NR	213	26	18.4	NM	8.6	NM	6.1	3.9	
861	COLEMAN	1173	25	832	934y	24	40.1	20	4.3	4.5	9.0	13.3	
862	WILMINGTON TRUST	1172	34	866	462a	16	88.3	4	19.1	21.2	30.0	20.1	5
863	MARVEL ENTERTAINMENT GROUP	1170	–26	569	761a	63	27.9	–55	3.7	13.4	6.4	10.5	1
864	LANCASTER COLONY	1164	14	787	821	7	73.0	10	8.9	8.6	22.2	23.9	
865	HANNAFORD BROTHERS	1163	8	756	2568y	12	70.2	13	2.7	2.7	11.5	13.9	
866	FEDERAL SIGNAL	1155	24	841	816	21	51.6	10	6.3	6.9	21.2	21.2	
867	EL PASO NATURAL GAS	1155	6	743	1038	19	85.4	–5	8.2	10.3	9.6	12.2	2
868	AMPHENOL	1153	–1	712	783	13	62.9	48	8.0	6.1	15.0	19.1	
869	STOP & SHOP	1153	-5	690	3925a	5	81.6	3	2.1	2.1	8.7	24.6	2
870	PICTURETEL	1143	172	NR	347	36	19.6	329	5.7	1.8	10.6	10.7	
871	ELECTRONICS FOR IMAGING	1143	143	NR	190	46	37.5	76	19.7	16.3	22.9	22.9	
872	AIRGAS	1142	41	920	791	23	38.0	34	4.8	4.4	9.3	17.2	
873	MOBILEMEDIA	1139	NA	NR	253	25	–40.2	NM	NM	NM	NM	–16.3	1
874	BANKERS LIFE HOLDING	1138	3	734	1527	6	128.3	–4	8.4	9.3	11.4	12.4	4
875	THE MONEY STORE	1138	236	NR	511	55	48.7	56	9.5	9.5	8.8	20.2	1
876	EG&G	1137	43	940	1420	7	54.3	NM	3.8	NM	NA	15.1	
877	STEWART ENTERPRISES	1135	93	NR	369a	45	26.1	–4	7.1	10.7	5.1	5.4	1
878	SPIEGEL	1131	2	731	3166	5	–9.5	NM	NM	0.8	NM	–1.8	2
879	HAWAIIAN ELECTRIC INDUSTRIES	1128	19	828	1296	9	84.4	5	6.5	6.7	5.8	10.8	5
880	TANDEM COMPUTERS	1126	–43	477	2263	4	74.3	–59	3.3	8.3	6.3	6.7	1
881	DIME BANCORP	1121	122	NR	1423	17	62.2	–49	4.4	9.9	NA	6.4	20
882	NORAM ENERGY	1119	62	NR	2965	4	65.5	28	2.2	1.8	NA	9.5	3
883	CONTIFINANCIAL	1118	NA	NR	NA	NA	NA	NA	NA	NA	NA	NA	
884	FIRST BRANDS	1118	42	929	1053	2	52.8	–3	5.0	5.3	11.3	12.8	
885	POGO PRODUCING	1118	84	NR	158y	–9	9.2	–66	5.9	15.8	6.8	12.8	
886	RPM	1111	6	774	1066	17	62.9	10	5.9	6.3	8.6	14.6	1
887	CALIFORNIA ENERGY	1105	132	NR	399y	115	63.4	63	15.9	20.9	NA	11.8	2
888	SCHOLASTIC	1104	41	946	839	23	43.8	31	5.2	4.9	10.8	15.9	
889	IOMEGA	1103	834	NR	326	131	8.5	NM	2.6	NM	16.2	13.5	
890	COMSAT	1098	32	894	843	2	37.9	–51	4.5	9.4	3.2	4.5	2
891	EQUITY RESIDENTIAL PROPERTIES TRUST	1095	19	895	389	68	64.2	86	16.5	14.9	7.3	9.4	2
892	KELLY SERVICES	1093	–9	693	2690	14	69.5	14	2.6	2.6	15.0	15.0	
893	SCI SYSTEMS	1092	121	NR	3514	56	62.3	96	1.8	1.4	11.7	14.6	1
894	KU ENERGY	1092	4	767	686	8	78.3	0	11.4	12.3	8.6	12.2	1
895	IDAHO POWER	1091	15	829	546	0	86.9	16	15.9	13.8	8.4	12.0	2
896	NABORS INDUSTRIES	1089	93	NR	611	28	55.3	NM	9.0	0.7	14.8	15.0	
897	USA WASTE SERVICES	1087	333	NR	457	5	30.3	NM	6.6	NM	NA	15.8	
898	JONES APPAREL GROUP	1085	78	NR	776y	23	63.5	16	8.2	8.7	20.3	20.7	
899	RUSSELL	1084	–10	691	1153	5	54.1	–31	4.7	7.2	8.2	8.6	1
900	KAISER ALUMINUM	1084	77	NR	2238	26	60.3	NM	2.7	NM	13.0	93.2	2

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

MONTH	BOOK	P-E	DIVIDENDS YIELD		TOTAL	SHARES INSTITUTIONS HOLDING	SHRS OUT MIL	OVER	FY	EARNINGS PER SHARE	ACTUAL	ANALYSTS ESTIMATES EST	ATION	INDUSTRY GROUP
2/8	223	14	0.44	6	9	9	105	8.1	12	0.10	0.82	0.66	4.5	Fuel
4/38	124	11	4.04	45	–1	47	29	55.0	12	1.68	3.72	3.40	13.2	Paper
3/20	208	17	6.67	116	5	11	58	31.0	07	1.06	1.19	NA	NA	Housing
4/21	126	24	7.31	174	–1	28	54	62.7	12	2.00	0.92	1.96	5.6	Utilities
3/27	2345	7	1.00	7	7	61	37	131.4	12	2.88	4.73	3.80	8.4	Chemicals
5/21	157	9	0.82	7	–15	72	49	119.0	12	1.81	2.69	2.36	30.1	Metals
3/20	NA	NA	0.00	0	NA	NA	44	NA	12	NA	NA	NA	NA	Telecommunications
5/27	NA	22	0.84	19	46	74	28	130.0	12	2.22	1.92	2.71	8.5	Metals
9/18	304	22	0.00	0	30	37	48	98.3	06	0.96	1.14	1.37	2.2	Health care
0/7	341	87	0.00	0	155	76	61	208.4	12	–0.39	0.22	0.96	10.4	Fuel
5/31	390	29	0.00	0	25	16	27	36.1	12	1.26	1.51	2.28	1.3	Leisure
5/24	261	13	3.61	47	39	34	35	45.3	12	2.37	2.56	2.82	1.4	Banks
3/11	441	NM	0.00	0	–26	NA	102	33.3	12	0.60	0.05d	0.78	3.8	Publishing/TV
9/31	382	16	1.80	29	12	52	31	79.2	06	1.97	2.35	2.64	0.8	Food
9/23	231	16	1.53	25	8	37	42	23.8	12	1.50	1.67	1.86	3.2	Food
3/20	474	23	2.27	51	27	53	45	38.0	12	1.02	1.13	1.40	2.1	Manufacturing
5/25	165	14	3.91	53	14	70	34	80.7	12	2.45	2.47	2.55	7.1	Utilities
9/19	350	18	0.00	0	–1	53	47	109.5	12	0.91	1.33	1.58	1.9	Electrical & electronics
9/19	348	15	0.00	0	–5	34	50	51.2	01	1.59	1.51d	1.81	2.8	Food
5/13	620	63	0.00	0	158	82	32	672.2	12	0.15	0.56	0.79	5.1	Telecommunications
9/18	697	32	0.00	0	133	98	25	546.1	12	0.86	1.41	1.79	2.8	Software/services
7/22	515	29	0.00	0	39	64	32	58.2	03	0.96	1.24d	1.56	4.5	Services
9/19	462	NM	0.00	0	NA	19	46	NA	12	–1.58	–1.37	–2.16	60.2	Telecommunications
3/18	110	9	2.67	24	11	6	51	65.2	12	2.49	2.46	2.64	8.7	Nonbank financial
5/6	472	23	0.38	9	235	57	51	328.2	12	0.62	0.95	1.10	5.5	Nonbank financial
5/14	316	23	2.35	53	70	67	48	61.9	12	–0.58	1.05	1.30	2.3	Services
5/26	234	38	0.19	7	55	61	27	86.4	10	1.28	1.08	1.82	1.1	Housing
4/7	211	NM	1.90	DEF	4	5	108	35.2	12	0.23	–0.09	0.41	14.6	Retailing
9/32	156	14	6.34	90	22	33	30	29.6	12	2.60	2.66	2.82	1.8	Utilities
8/9	102	11	0.00	0	–43	73	117	163.2	09	1.50	0.91	0.33	63.6	Computers
3/9	115	20	0.00	0	27	49	100	83.8	12	1.48	0.57	1.17	12.8	Nonbank financial
9/5	185	19	3.11	60	65	38	124	49.1	12	0.36	0.47	0.52	5.8	Utilities
/NA	NA	NA	NA	NA	NA	NA	43	NA	12	NA	NA	NA	NA	Nonbank financial
7/18	307	27	0.93	25	44	94	42	60.0	06	1.36	1.01	1.52	3.3	Manufacturing
5/18	1555	NM	0.35	43	84	83	33	106.1	12	0.82	0.28	0.55	36.4	Fuel
7/15	258	17	3.25	54	4	36	75	52.3	05	0.86	0.89d	0.99	4.0	Housing
3/15	210	18	0.00	0	30	58	50	61.7	12	0.95	1.25	1.46	4.8	Utilities
9/50	402	25	0.00	0	38	66	16	153.3	05	2.38	2.80d	3.40	2.9	Publishing/TV
0/2	1759	NM	0.00	0	782	6	59	2055.1	12	–0.03	0.14	NA	NA	Computers
5/17	131	29	3.37	99	35	75	47	127.1	12	1.64	0.79	1.07	10.3	Telecommunications
3/25	184	25	6.87	172	25	89	34	63.8	12	1.34	1.27	NA	NA	Housing
7/25	235	16	2.78	44	–7	46	38	77.8	12	1.61	1.83	2.04	2.5	Services
3/17	256	23	0.00	0	104	60	29	424.8	06	1.08	1.63	2.39	2.9	Electrical & electronics
1/26	176	14	5.96	86	10	18	38	28.8	12	2.01	2.01	2.03	3.4	Utilities
1/24	165	14	6.41	89	23	22	38	38.4	12	1.80	2.10	2.07	2.9	Utilities
4/7	295	22	0.00	0	91	64	85	68.0	09	0.01	0.58	0.72	4.2	Fuel
3/10	569	39	0.00	0	92	42	51	125.6	12	0.61	0.55	1.51	5.3	Services
4/23	354	17	0.00	0	76	63	26	100.5	12	2.08	2.38	2.75	4.0	Consumer products
1/22	172	20	1.71	35	–6	48	39	37.2	12	1.96	1.38	1.94	4.1	Consumer products
1/10	2532	23	0.00	0	44	21	72	80.4	12	–2.09	0.67	1.78	38.8	Metals

TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASS
					MONTHS $ MIL		12 MONTHS 1995 $ MIL	CHANGE FROM	12 MONTHS 1995	12 MONTHS 1994	ON INVESTED CAPITAL	ON COMMON EQUITY	
901	PEOPLES ENERGY	1083	18	852	1044	-14	73.1	21	7.0	5.0	9.0	11.0	1
902	NIAGARA MOHAWK POWER	1082	-49	444	3917	-6	248.0	40	6.3	4.3	6.4	8.2	9
903	SYBRON	1082	30	912	554	24	53.6	20	9.7	10.0	10.8	23.6	
904	CONSOLIDATED FREIGHTWAYS	1075	25	885	5281	13	57.4	-5	1.1	1.3	6.0	6.7	2
905	VIVRA	1075	59	976	350	23	37.9	28	10.8	10.4	11.5	11.5	
906	McAFEE ASSOCIATES	1075	326	NR	90	70	14.9	473	16.6	4.9	23.5	23.5	
907	ZIONS BANCORPORATION	1074	84	NR	467a	20	76.1	23	16.3	16.0	21.7	19.8	5
908	GRAND CASINOS	1073	201	NR	373	30	70.1	142	18.8	10.1	11.4	20.5	
909	COMDISCO	1072	16	835	2246y	8	106.0	93	4.7	2.6	11.3	14.3	5
910	USAIR GROUP	1071	198	NR	7474	7	119.3	NM	1.6	NM	14.3	NM	6
911	ALEXANDER & BALDWIN	1070	8	800	1021y	-11	32.4	-49	3.2	5.6	5.0	5.0	1
912	DENTSPLY INTERNATIONAL	1068	16	845	572	9	54.0	0	9.4	10.3	15.0	18.0	
913	PERRIGO	1068	1	770	766	13	41.2	-22	5.4	7.7	9.8	11.3	
914	VERIFONE	1059	79	NR	387	25	32.5	17	8.4	9.0	12.2	12.3	
915	ANIXTER INTERNATIONAL	1057	3	758	2195	27	39.1	-15	1.8	2.7	NA	7.5	1
916	CYPRESS SEMICONDUCTOR	1053	-5	735	596	47	102.5	103	17.2	12.4	NA	21.7	
917	UNISYS	1050	-32	554	6202	4	-627.3	NM	NM	0.2	NM	-71.4	7
918	McDERMOTT INTERNATIONAL	1049	-30	582	3234	9	5.7	-86	0.2	1.4	NM	-0.4	4
919	THERMOLASE	1047	567	NR	25	34	-1.8	NM	NM	0.1	NM	-5.5	
920	OGDEN	1046	0	838	2192	4	7.4	-89	0.3	3.1	1.0	1.2	3
921	BRINKER INTERNATIONAL	1044	-27	602	1128	18	40.1	-42	3.6	7.2	6.2	7.1	
922	USLIFE	1041	20	875	1740	5	105.4	10	6.1	5.8	8.5	8.8	7
923	PAUL REVERE	1041	53	NR	1534	14	85.3	-7	5.6	6.8	6.6	6.1	6
924	U.S. INDUSTRIES	1040	NA	NR	2104	8	-63.0	NM	NM	2.5	NA	-13.8	1
925	MARTIN MARIETTA MATERIALS	1037	21	889	664	32	67.6	16	10.2	11.6	15.8	16.0	
926	ENSERCH	1035	10	834	1931	-8	13.1	-84	0.7	3.9	NA	0.2	3
927	INTERNATIONAL RECTIFIER	1035	71	NR	501	35	52.6	106	10.5	6.9	13.2	14.7	
928	VALERO ENERGY	1033	33	952	3020	64	59.8	123	2.0	1.5	6.1	4.7	2
929	GLOBAL DIRECTMAIL	1032	NA	NR	634	31	33.1	51	5.2	4.5	NA	25.4	
930	SPELLING ENTERTAINMENT GROUP	1030	10	842	664	11	16.5	-31	2.5	4.0	2.9	3.1	1
931	WASHINGTON WATER POWER	1029	26	921	755	13	87.1	13	11.5	11.5	8.1	11.2	2
932	DEAN FOODS	1028	-17	673	2710	5	72.7	-9	2.7	3.1	10.5	12.1	1
933	R.P. SCHERER	1028	-4	765	570	12	48.0	23	8.4	7.7	14.3	16.4	
934	SHIVA	1026	215	NR	118	45	-2.9	NM	NM	4.8	NA	-2.4	
935	TALBOTS	1026	-7	736	947a	14	58.2	14	6.2	6.1	14.0	14.7	
936	LEE ENTERPRISES	1025	27	924	457y	10	57.6	6	12.6	13.1	16.8	18.5	
937	BECKMAN INSTRUMENTS	1025	20	867	930	5	48.9	3	5.3	5.3	11.4	14.1	
938	HARTFORD STEAM BOILER INSPECTION	1023	18	881	672	11	62.6	21	9.3	8.6	15.7	18.8	
939	C-TEC	1022	58	NR	325	21	22.7	704	7.0	1.1	6.4	6.1	
940	LIN TELEVISION	1018	18	NR	217	44	38.0	22	17.5	20.7	NA	54.9	
941	RAYONIER	1016	14	869	1261	18	142.3	103	11.3	6.5	15.8	19.2	1
942	NEVADA POWER	1015	8	863	750	-2	77.0	-6	10.3	10.7	6.8	9.5	2
943	WESTERN DIGITAL	1015	48	NR	2430	28	90.8	-37	3.7	7.5	19.7	19.7	
944	NORDSON	1012	-1	786	590	12	53.0	11	9.0	9.1	22.7	23.1	
945	PROTECTIVE LIFE	1011	55	NR	898a	10	76.5	9	8.5	8.6	11.7	16.1	7
946	LAM RESEARCH	1010	-6	761	1030	69	119.2	116	11.6	9.0	22.5	25.9	
947	CONCORD EFS	1005	157	NR	128	33	18.3	44	14.3	13.2	22.1	22.6	
948	M.A. HANNA	1005	15	879	1902	11	56.7	53	3.0	2.2	10.0	11.5	1
949	TERRA INDUSTRIES	1005	13	950	2292y	38	163.9	191	7.2	3.4	21.8	28.7	1
950	EQUITABLE RESOURCES	1002	5	818	1426	2	1.5	-97	0.1	4.3	NM	0.2	1

ALPHABETICAL INDEX OF COMPANIES BEGINS O

			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
	PRICE		YIELD		TOTAL RETURN	INSTI-HOLDING	OUT MIL	TURN-OVER	FY	1994 ACTUAL	1995 ACTUAL	EST $		
3/24	163	17	5.81	101	25	39	35	31.0	09	2.13	1.78	2.24	7.6	Utilities
5/7	43	5	14.93	78	–43	51	144	112.2	12	1.00	1.44	1.38	10.9	Utilities
5/17	476	21	0.00	0	30	77	47	49.1	09	0.93	1.10	1.32	1.5	Health care
9/21	155	24	1.63	38	5	81	44	158.5	12	1.00b	1.04	1.51	14.6	Transportation
1/18	326	27	0.00	0	36	84	36	87.6	11	0.97	1.08	1.31	0.8	Health care
9/13	1692	79	0.00	0	271	92	20	423.1	12	0.07	0.68	1.58	2.5	Software/services
2/38	262	13	2.22	30	88	35	15	84.0	12	4.37	5.53	6.16	3.4	Banks
5/10	314	16	0.00	0	199	58	34	255.2	12	0.87	1.98	2.12	6.6	Leisure
4/16	156	12	1.37	16	22	49	52	43.9	09	0.77	1.73	1.95	2.6	Software/services
8/5	NEG	31	0.00	0	187	53	63	415.1	12	–12.73	0.55	1.70	36.5	Transportation
5/21	164	33	3.74	122	12	54	46	44.6	12	1.62	0.72	1.42	7.0	Transportation
1/33	357	20	0.83	17	20	79	27	108.9	12	1.95	2.00	2.48	1.6	Health care
5/11	292	24	0.00	0	1	45	76	145.3	06	0.71	0.58	0.67	4.5	Health care
3/20	400	34	0.00	0	76	55	24	207.3	12	1.18	1.32	1.61	1.9	Office equipment
2/17	204	27	0.00	0	8	60	56	47.3	12	0.72	0.71	1.08	1.9	Conglomerates
3/10	223	12	0.00	0	10	88	83	671.4	12	0.60b	1.09	1.65	4.2	Electrical & electronics
2/6	100	NM	0.00	0	–32	38	171	147.3	12	–0.07	–4.37	0.42	23.8	Computers
9/15	148	48	5.19	250	–28	80	54	111.5	03	0.05	0.40d	1.03	23.3	Manufacturing
1/4	3424	NA	0.00	0	524	22	40	106.6	12	0.00	NA	0.08	62.5	Consumer products
5/20	174	NM	5.85	833	6	56	49	60.2	12	1.55	0.15	1.53	1.3	Conglomerates
0/12	184	14	0.00	0	–31	66	77	159.5	06	0.83	0.98	0.79	3.8	Leisure
3/24	87	10	3.09	31	23	70	34	42.5	12	2.79	3.03	3.12	2.6	Nonbank financial
4/15	75	12	1.04	13	54	11	45	11.3	12	2.04	1.90	1.86	4.3	Nonbank financial
0/13	227	NM	0.00	0	NA	54	54	NA	09	NA	–1.17	1.51	6.6	Electrical & electronics
3/18	245	15	1.96	30	23	17	46	11.7	12	1.30	1.47	1.69	3.0	Housing
9/13	145	NM	1.32	1000	9	70	68	64.8	12	1.05	0.02	0.67	28.4	Utilities
5/11	288	24	0.00	0	69	79	50	199.7	06	0.39	0.84	1.23	2.4	Electrical & electronics
7/16	100	21	2.20	47	35	79	44	59.3	12	0.40	1.10	1.68	10.1	Fuel
1/19	734	31	0.00	0	NA	20	37	NA	12	0.51	0.90	1.14	0.9	Retailing
4/9	192	61	0.00	0	9	11	89	23.6	12	0.32	0.19	NA	NA	Leisure
9/15	147	13	6.70	88	32	18	56	43.3	12	1.28	1.41	1.42	3.5	Utilities
2/26	171	15	2.81	41	–15	43	40	47.2	05	2.01	1.76d	2.06	9.7	Food
0/37	351	22	0.00	0	–4	91	23	129.8	03	1.83	2.04d	2.41	3.7	Health care
9/27	839	NM	0.00	0	158	42	12	318.7	12	0.28	–0.22	1.19	4.2	Software/services
3/24	259	17	0.93	16	–4	38	34	83.2	01	1.56	1.78d	2.10	2.4	Retailing
3/17	330	17	2.22	39	22	42	47	17.8	09	1.09	1.25	1.34	3.7	Publishing/TV
9/26	295	21	1.43	31	20	67	28	52.9	12	1.68	1.70	2.58	1.2	Electrical & electronics
3/41	307	16	4.55	74	23	53	20	39.2	12	2.54	3.07	3.34	2.4	Nonbank financial
9/19	276	45	0.00	0	58	25	27	76.2	12	0.17	0.83	NA	NA	Telecommunications
0/27	1470	27	0.00	0	16	35	30	88.1	12	1.19	1.28	1.61	19.3	Publishing/TV
1/28	137	7	2.92	21	18	81	30	76.1	12	2.36	4.75	4.21	10.9	Paper
3/19	132	14	7.36	101	13	18	47	42.4	12	1.82	1.58	1.72	3.5	Utilities
2/13	220	8	0.00	0	39	68	49	374.1	06	1.77	2.56	1.49	6.0	Computers
0/53	440	20	1.27	25	3	24	18	30.9	10	2.45	2.84	3.25	1.8	Manufacturing
5/22	212	13	1.82	24	51	62	29	27.9	12	2.57	2.68	2.98	1.7	Nonbank financial
3/32	220	12	0.00	0	–8	90	27	1020.0	06	1.55b	3.06	4.70	3.0	Manufacturing
0/10	1240	57	0.00	0	151	67	37	107.8	12	0.34	0.47	0.64	3.1	Nonbank financial
0/23	203	15	2.05	32	18	62	36	47.6	12	1.20	1.83	1.88	3.2	Chemicals
5/10	176	6	0.97	6	14	32	81	73.1	12	0.77	2.01	1.93	9.8	Chemicals
2/26	133	NM	4.12	2950	7	68	35	49.5	12	1.76	0.04	1.80	10.0	Utilities

TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASS
				RANK	12 MONTHS	CHANGE FROM 1994	12 MONTHS	CHANGE FROM 1994	12 MONTHS 1995	12 MONTHS 1994	ON CAPITAL	ON COMMON EQUITY	
951	AMDAHL	999	-23	644	1516	-7	28.5	-62	1.9	4.6	3.6	2.9	1
952	WEINGARTEN REALTY	998	4	822	134	11	44.8	2	33.4	36.3	9.4	10.8	
953	MICRON ELECTRONICS	995	NA	NR	1304	177	70.1	70	5.4	8.8	NA	36.7	
954	ATLANTA GAS LIGHT	995	15	883	1063	-9	59.2	53	5.6	3.3	7.7	9.8	1
955	POLICY MANAGEMENT SYSTEMS	993	14	877	537	9	3.1	NM	0.6	NM	0.7	0.8	
956	INTERNEURON PHARMACEUTICALS	992	402	NR	9	NM	-16.0	NM	NM	NM	-53.1	-87.2	
957	HEALTH & RETIREMENT PROPERTIES TRUST	991	19	910	116	34	64.2	24	55.5	59.8	8.4	10.4	1
958	OAKWOOD HOMES	989	86	NR	859y	19	52.3	37	6.1	5.3	10.3	15.7	
959	MEDIA GENERAL	989	19	913	708	13	53.2	-55	7.5	18.7	9.0	14.9	1
960	UNIVERSAL FOODS	988	21	917	799	-11	44.0	-39	5.5	8.0	10.1	12.1	
961	MID ATLANTIC MEDICAL SERVICES	984	5	837	955y	27	61.1	12	6.4	7.3	31.0	30.5	
962	OAK TECHNOLOGY	984	NM	NR	212	223	46.3	354	21.8	15.5	25.8	23.2	
963	CINCINNATI MILACRON	983	39	NR	1649	38	105.6	180	6.4	3.2	23.7	53.2	1
964	FIRSTMERIT	983	54	NR	432a	14	46.1	-29	10.7	17.1	11.7	4.7	5
965	ALBERTO-CULVER	983	24	949	1394	12	54.3	16	3.9	3.8	10.9	14.3	
966	BLYTH INDUSTRIES	983	146	NR	299a	56	20.6	64	6.9	6.6	13.1	15.1	
967	PENTAIR	981	25	947	1403	11	60.5	21	4.3	4.0	9.4	12.4	1
968	VALSPAR	981	27	954	792	-2	48.4	3	6.1	5.8	21.4	22.3	
969	AMERICAN POWER CONVERSION	979	41	547	515	36	69.5	-2	13.5	18.8	24.1	24.0	
970	ASPECT TELECOMMUNICATIONS	979	175	NR	199	35	24.0	37	12.1	11.9	NA	23.5	
971	CENTRAL NEWSPAPERS	977	36	999	580	12	54.0	31	9.3	8.0	15.5	15.6	
972	OCTEL COMMUNICATIONS	975	79	NR	501	15	36.9	216	7.4	2.7	12.4	12.4	
973	WESTERN NATIONAL	974	32	979	570	-7	7.3	-90	1.3	11.9	1.6	0.9	9
974	SYMBOL TECHNOLOGIES	974	45	NR	555	19	46.5	33	8.4	7.5	12.0	13.2	
975	PITTSTON BRINK'S GROUP	972	-7	777	788	20	51.1	23	6.5	6.3	19.3	19.7	
976	COMPUWARE	969	-41	548	580	17	41.2	-31	7.1	12.0	14.3	14.3	
977	BERGEN BRUNSWIG	967	-9	750	8841y	16	66.0	11	0.7	0.8	8.3	12.4	2
978	ROUSE	964	3	833	673y	0	5.9	-11	0.9	1.0	NA	-16.1	2
979	COLTEC INDUSTRIES	962	-20	698	1402	6	71.2	-24	5.1	7.1	26.0	NM	
980	UUNET TECHNOLOGIES	962	NA	NR	94	185	-18.3	NM	NM	NM	NM	-22.6	
981	ATLANTIC ENERGY	959	-7	779	953	4	96.4	4	10.1	10.2	7.3	9.9	2
982	HEALTH CARE PROPERTY INVESTORS	957	19	934	106	8	80.3	61	75.9	51.0	15.7	23.6	
983	AMERICAN MANAGEMENT SYSTEMS	956	78	NR	632	38	29.2	25	4.6	5.1	16.4	18.0	
984	WPL HOLDINGS	954	3	844	807	3	74.9	7	9.3	8.9	NA	11.9	1
985	LABORATORY CORP. OF AMERICA HLDGS.	953	-19	707	1432	64	-4.0	NM	NM	3.5	0.6	-1.0	1
986	HOME SHOPPING NETWORK	952	15	904	1019	-10	-61.9	NM	NM	1.6	NM	-49.5	
987	BARNES & NOBLE	952	7	871	1847a	22	27.8	107	1.5	0.9	7.0	6.3	1
988	PITTWAY	950	51	NR	946	22	40.4	-10	4.3	5.8	12.0	11.4	
989	STARWOOD LODGING TRUST	949	NM	NR	162y	42	11.1	NM	6.9	NM	8.3	5.0	
990	DAVIDSON & ASSOCIATES	947	105	NR	147	58	13.6	110	9.2	7.0	25.6	20.2	
991	ARROW INTERNATIONAL	947	13	906	220	16	35.5	18	16.2	15.9	17.0	17.9	
992	WASHINGTON GAS LIGHT	946	17	927	860	-3	73.5	27	8.5	6.5	9.8	13.3	1
993	UNIVERSAL	942	35	NR	3525y	13	43.7	87	1.2	0.7	13.3	10.4	2
994	MICROCHIP TECHNOLOGY	939	14	938	272	43	40.8	26	15.0	17.0	20.6	21.4	
995	BRODERBUND SOFTWARE	935	-9	788	189	43	40.5	147	21.4	12.4	27.7	27.7	
996	AK STEEL HOLDING	933	38	NR	2257	12	268.6	-1	11.9	13.5	30.3	37.6	2
997	AMERICA WEST AIRLINES	932	136	NR	1551	NA	54.8	NA	3.5	NA	8.4	8.5	1
998	INTEGRATED DEVICE TECHNOLOGY	928	-35	650	645	66	123.3	76	19.1	18.0	18.0	23.8	
999	PIXAR	925	NA	NR	12	117	1.6	NM	13.4	NM	1.2	NM	
1000	STRUCTURAL DYNAMICS RESEARCH	923	333	NR	204	22	-8.5	NM	NM	NM	-10.9	-10.9	

ALPHABETICAL INDEX OF COMPANIES BEGINS O

ON 12-MONTH HIGH/LOW $	PRICE AS % OF BOOK VALUE	P/E RATIO	DIVIDENDS YIELD %	PAYOUT %	TOTAL RETURN %	SHARES INSTITUTIONS HOLDING %	[illegible]	[illegible]	[illegible]	EARNINGS PER SHARE 1994 ACTUAL $	1995 ACTUAL $	ANALYSTS ESTIMATES 1996 EST $	VARIATION %	INDUSTRY GROUP
14/7	103	35	0.00	0	–25	51	119	80.7	12	0.63	0.24	0.38	44.7	Computers
39/33	240	22	6.38	142	10	43	27	36.6	12	1.67	1.69	NA	NA	Housing
30/9	521	15	0.00	0	1	2	93	117.7	08	–0.74	0.74	0.87	5.7	Computers
20/17	179	36	5.85	212	14	31	55	32.5	09	1.17	0.50	1.39	4.3	Utilities
54/43	240	NM	0.00	0	13	80	19	68.4	12	–0.46	0.16	2.83	0.7	Software/services
33/6	5423	NM	0.00	0	350	18	34	188.5	09	–0.98	–0.59	NA	NA	Health care
17/14	161	16	8.24	128	25	20	59	52.1	12	0.98	1.08	NA	NA	Housing
46/23	297	22	0.18	4	77	82	22	61.9	09	1.54	2.03	2.37	2.1	Housing
38/28	276	19	1.28	24	20	56	26	23.3	12	4.45	2.01	2.09	6.7	Publishing/TV
41/31	271	15	2.64	39	24	71	26	56.2	09	1.95	2.54	2.41	0.8	Food
25/17	491	17	0.00	0	3	69	47	247.0	12	1.15	1.28	1.60	4.4	Services
52/21	494	37	0.00	0	144	64	20	525.3	06	0.30	1.35	3.46	5.8	Electrical & electronics
34/20	496	9	1.25	12	39	70	34	86.8	12	1.10	3.04	2.18	2.8	Manufacturing
31/22	181	38	3.69	140	29	18	34	22.4	12	2.22	0.77	2.35	NM	Banks
39/27	258	19	1.02	19	25	17	28	20.4	09	1.57	1.89	2.08	2.4	Consumer products
35/14	721	41	0.00	0	126	36	31	32.5	01	0.50	0.78d	1.03	1.0	Manufacturing
29/20	220	19	1.89	35	25	31	37	80.9	12	1.26b	1.41	1.72	3.5	Manufacturing
47/35	453	21	1.48	31	27	50	22	16.7	10	2.08	2.15	2.46	1.2	Housing
26/8	338	14	0.00	0	–41	51	93	384.8	12	0.77	0.74	0.82	8.5	Electrical & electronics
50/16	960	46	0.00	0	169	82	21	298.0	12	0.80b	1.03	1.41	1.4	Telecommunications
37/25	282	18	1.86	34	39	36	27	24.1	12	1.55	2.03	2.27	3.1	Publishing/TV
43/18	328	32	0.00	0	72	77	24	418.0	06	0.54	1.26	1.75	6.3	Telecommunications
17/11	124	NM	1.02	133	33	87	62	47.3	12	1.18	0.12	1.64	3.7	Nonbank financial
41/26	276	22	0.00	0	45	91	26	124.5	12	1.34	1.72	2.03	1.5	Computers
33/22	375	17	0.43	7	30	91	42	119.9	12	1.10	1.35	1.56	1.9	Services
38/16	335	14	0.00	0	–37	77	42	286.0	03	1.30	1.59d	1.95	10.8	Software/services
29/19	182	15	1.98	30	–9	61	40	97.4	09	1.45	1.61	1.83	1.1	Health care
23/18	1772	NM	3.98	DEF	6	68	48	43.6	12	–0.14	–0.18	NA	NA	Housing
19/10	NEG	13	0.00	0	–20	98	70	66.3	12	1.35	1.02	1.31	1.5	Manufacturing
95/23	1192	NM	0.00	0	NA	15	32	NA	12	–0.35	–0.63	0.21	14.3	Software/services
20/18	117	12	8.44	99	4	21	53	45.5	12	1.41	1.55	1.74	4.6	Utilities
36/29	282	12	6.51	77	19	55	29	29.9	12	1.87	2.83	NA	NA	Housing
25/11	591	33	0.00	0	76	70	40	108.0	12	0.60	0.72	0.88	1.1	Software/services
32/28	159	13	6.35	85	9	17	31	27.3	12	2.13	2.33	2.33	1.7	Utilities
16/7	231	NM	0.00	0	–44	24	123	36.8	12	0.36	–0.03	0.75	13.3	Health care
11/7	761	NM	0.00	0	18	40	91	96.5	12	0.19	–0.69	0.18	44.4	Retailing
42/23	215	27	0.00	0	–2	55	33	151.4	01	0.81	1.07d	1.40	4.3	Retailing
72/42	269	24	0.73	17	53	58	14	17.1	12	3.22	2.90	3.35	4.2	Conglomerates
34/18	423	30	2.73	82	96	39	28	47.7	12	–2.28	1.15	NA	NA	Housing
39/13	1772	76	0.00	0	102	29	35	189.0	12	0.15	0.36d	0.57	8.8	Software/services
49/30	478	27	0.39	11	10	27	23	55.0	08	1.29	1.52	1.75	1.1	Health care
23/18	174	15	5.12	77	21	22	43	20.5	09	1.42	1.45	1.56	8.3	Utilities
27/20	231	37	3.80	140	40	67	35	27.2	06	1.09	0.73	1.65	4.2	Consumer products
45/23	491	19	0.00	0	10	80	34	385.3	03	1.05	1.46d	2.00	2.5	Electrical & electronics
79/42	640	26	0.00	0	–13	86	21	912.9	08	0.55	1.72	1.90	8.9	Software/services
39/22	138	4	1.66	7	40	84	26	169.1	12	8.30b	8.14	5.26	11.0	Metals
22/8	145	17	0.00	0	136	43	45	158.0	12	–4.26	1.18	1.66	4.2	Transportation
34/9	179	8	0.00	0	–37	75	77	1036.9	03	1.05b	1.55d	1.57	20.4	Electrical & electronics
42/19	NEG	NM	0.00	0	NA	0	37	NA	12	–0.06	0.04	0.22	9.1	Software/services
33/7	1192	NM	0.00	0	314	52	30	579.8	12	–0.31	–0.28	0.96	8.3	Software/services

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ALPHABETICAL LIST OF COMPANIES

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. That list begins on page106. The numbers immediately to the right identify th company's rank in sales, profits, and assets, respectively, among all Business Week 1000 companies.

	COMPANY	SALES	PROFITS	ASSETS
	A			
33	**ABBOTT LABORATORIES** 1 Abbott Park Rd, Abbott Park, IL 60064/847-937-6100	117	34	242
410	**ADAPTEC** [illegible] CA 95035/408-945-8600	833	613	915
482	**ADC TELECOMMUNICATIONS** [illegible] MN 55[illegible]/612-938-8080	822	746	877
490	**ADOBE SYSTEMS** [illegible] Mountain View, CA 94043/415-961-4400	769	607	806
671	**ADTRAN** 901 Explorer Blvd, Huntsville, AL 35806/205-971-8000	953	856	985
573	**ADVANCED MICRO DEVICES** [illegible] Anderson, SC 29622/408-732-2400	440	243	470
582	**ADVANTA** 300 Welsh Rd, Horsham, PA 19044/215-657-4000	826	464	384
651	**AES** [illegible]	798	556	562
145	**AETNA LIFE & CASUALTY** 151 Farmington Ave, Hartford, CT 06156/203-273-0123	85	158	29
298	**AFLAC** 1932 Wynnton Rd, Columbus, GA 31999/706-323-3431	166	214	86
794	**AGCO** [illegible]	476	487	572
466	**AHMANSON (H. F.)** 4900 Riverside Rd, Irwindale, CA 91706/818-960-6311	270	170	44
196	**AIR PRODUCTS & CHEMICALS** [illegible]	291	202	316
872	**AIRGAS** [illegible]	759	831	840
77	**AIRTOUCH COMMUNS.** One California St, San Francisco, CA 94111/415-658-2000	563	476	329
996	**AK STEEL HOLDING** 703 Curtis St, Middletown, OH 45043/513-425-5000	460	273	579
805	**ALBEMARLE** 451 Florida St, Baton Rouge, LA 70801/504-388-8011	645	669	730
965	**ALBERTO-CULVER** 2525 Armitage Ave, Melrose Park, IL 60160/708-450-3000	611	764	818
131	**ALBERTSON'S** 250 East Parkcenter Blvd, Boise, ID 83726/208-385-6200	93	165	411
243	**ALCO STANDARD** 825 Duportail Rd, Wayne, PA 19087/610-296-8000	111	310	352
911	**ALEXANDER & BALDWIN** 822 Bishop St, Honolulu, HI 96801/808-525-6611	689	849	633
747	**ALLEGHANY** 375 Park Ave, New York, NY 10152/212-752-1356	530	641	405
818	**ALLEGHENY LUDLUM** 1000 Six PPG Place, Pittsburgh, PA 15222/412-394-2800	584	530	751
349	**ALLEGHENY POWER SYSTEM** 12 East 49th St, New York, NY 10017/212-752-2121	419	284	302
496	**ALLERGAN** 2525 Dupont Dr, Irvine, CA 92715/714-752-4500	676	697	714
71	**ALLIEDSIGNAL** 101 Columbia Rd, Morristown, NJ 07962/201-455-2000	67	79	186
763	**ALLMERICA FINANCIAL** 440 Lincoln St, Worcester, MA 01653/508-855-1000	NR	511	126
685	**ALLMERICA PROPERTY** 440 Lincoln St, Worcester, MA 01653/508-855-1000	486	451	324
57	**ALLSTATE** 2775 Sanders Rd, Northbrook, IL 60062/847-402-5000	27	24	33
201	**ALLTEL** One Allied Dr, Little Rock, AR 72202/501-661-8000	364	207	358
437	**ALTERA** 2610 Orchard Pkwy, San Jose, CA 95134/408-894-7000	893	634	855
673	**ALUMAX** 5655 Peachtree Pkwy, Norcross, GA 30092/770-246-6600	387	306	464
120	**ALUMINUM CO. OF AMERICA** 425 Sixth Ave, Pittsburgh, PA 15219/412-553-4545	92	88	171
444	**ALZA** 950 Page Mill Rd, Palo Alto, CA 94303/415-494-5000	915	698	79[illegible]
657	**AMBAC** One State St Plaza, New York, NY 10004/212-668-0340	933	406	34[illegible]
951	**AMDAHL** 1250 East Arques Ave, Sunnyvale, CA 94088/408-746-6000	581	862	64[illegible]
265	**AMERADA HESS** 1185 Ave of the Americas, New York, NY 10036/212-997-8500	156	985	25[illegible]
336	**AMERICA ONLINE** 8619 Westwood Center Dr, Vienna, VA 22182/703-448-8700	791	919	85[illegible]
997	**AMERICA WEST AIRLINES** 4000 East Sky Harbor Blvd, Phoenix, AZ 85034/602-693-0800	573	762	66[illegible]
151	**AMERICAN BRANDS** 1700 East Putnam Ave, Old Greenwich, CT 06870/203-698-5000	101	138	25[illegible]
157	**AMERICAN ELECTRIC POWER** One Riverside Plaza, Columbus, OH 43215/614-223-1000	216	128	14[illegible]
46	**AMERICAN EXPRESS** World Financial Center, New York, NY 10285/212-640-2000	56	38	2[illegible]
643	**AMERICAN FINANCIAL** One East Fourth St, Cincinnati, OH 45202/513-579-6600	313	365	16[illegible]
166	**AMERICAN GENERAL** 2929 Allen Pkwy, Houston, TX 77019/713-522-1111	188	137	3[illegible]
570	**AMERICAN GREETINGS** One American Rd, Cleveland, OH 44144/216-252-7300	498	536	59[illegible]
36	**AMERICAN HOME PRODUCTS** Five Giralda Farms, Madison, NJ 07940/201-660-5000	81	35	10[illegible]
15	**AMERICAN INTL. GROUP** 70 Pine St, New York, NY 10270/212-770-7000	24	17	1[illegible]
983	**AMERICAN MANAGEMENT** 4050 Legato Rd, Fairfax, VA 22033/703-267-8000	820	859	95[illegible]
625	**AMERICAN NATIONAL** One Moody Plaza, Galveston, TX 77550/409-763-4661	592	349	29[illegible]
969	**AMERICAN POWER** 132 Fairgrounds Rd, West Kingston, RI 02892/401-789-5735	861	708	94[illegible]

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you're breathing, few things are more certain n taxes. Each April the ultimate deadline looms, d trying to explain to your endly IRS agent that a wer sag ate your tax urn could produce some stardly dividends.

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 146.

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
626	**AMERICAN RE** 555 [illegible]	522	969	265
306	**AMERICAN STORES** 709 East South Temple, Salt Lake City, UT 84102/801-539-0112	44	229	283
789	**AMERICAN WATER WORKS** 1025 Laurel Oak Rd, Voorhees, NJ 08043/609-346-8200	754	615	443
544	**AMERICAN STANDARD** One Centennial Ave, Piscataway, NJ 08855/908-980-6000	234	452	430
35	**AMERITECH** [illegible] 800-257-0902	78	22	102
70	**AMGEN** 1840 Dehavilland Dr, Thousand Oaks, CA 91320/805-447-1000	499	140	529
28	**AMOCO** 200 East Randolph Dr, Chicago, IL 60601/312-856-6111	20	27	74
135	**AMP** 470 Friendship Rd, Harrisburg, PA 17105/717-564-0100	233	178	386
868	**AMPHENOL** 358 Hall Ave, Wallingford, CT 06492/203-265-8900	762	736	861
188	**AMR** 4333 Amon Carter Blvd, Fort Worth, TX 76155/817-963-1234	47	359	113
514	**AMSOUTH BANCORP.** 1900 Fifth Ave North, Birmingham, AL 35203/205-326-5120	614	489	133
379	**ANADARKO PETROLEUM** 17001 Northchase Dr, Houston, TX 77060/713-875-1101	887	883	552
390	**ANALOG DEVICES** One Technology Way, Norwood, MA 02062/617-329-4700	693	468	716
571	**ANDREW** 10500 West 153rd St, Orland Park, IL 60462/708-349-3300	811	699	909
64	**ANHEUSER-BUSCH** One Busch Place, St Louis, MO 63118/314-577-2000	110	77	200
915	**ANIXTER INTERNATIONAL** Two North Riverside Plaza, Chicago, IL 60606/312-902-1515	469	830	738
230	**AON** 1[illegible] North Wacker Dr, Chicago, IL 60606/312-701-3000	332	239	114
575	**APACHE** [illegible] Houston, TX 77[illegible]/713-296-[illegible]	774	886	502
359	**APPLE COMPUTER** One Infinite Loop, Cupertino, CA 95014/408-996-1010	100	409	297
198	**APPLIED MATERIALS** 380 Fairview Way, Milpitas, CA 95035/408-727-5555	320	133	457
704	**APRIA HEALTHCARE GROUP** 3560 Hyland Ave, Costa Mesa, CA 92626/714-427-2000	NR	NR	787
121	**ARCHER DANIELS MIDLAND** 4666 Faries Pkwy, Decatur, IL 62526/217-424-5200	86	85	213
261	**ARCO CHEMICAL** 3801 West Chester Pike, Newtown Square, PA 19073/610-359-2000	274	149	403
545	**ARMSTRONG WORLD** 313 West Liberty St, Lancaster, PA 17603/717-397-0611	483	900	537
513	**ARROW ELECTRONICS** 25 Hub Dr, Melville, NY 11747/516-391-1300	204	350	494
991	**ARROW INTERNATIONAL** 3000 Bernville Rd, Reading, PA 19605/610-378-0131	940	840	966
806	**ASARCO** 180 Maiden Lane, New York, NY 10038/212-510-2000	355	402	396
260	**ASCEND COMMUNICATIONS** 1275 Harbor Bay Pkwy, Alameda, CA 94502/510-769-6001	964	852	950
503	**ASHLAND** 1000 Ashland Dr, Russell, KY 41169/606-329-3[illegible]	99	682	287
970	**ASPECT TELECOMMUNS.** 1730 Fox Dr, San Jose, CA 95131/408-325-2200	948	874	984
2	**AT&T** 32 Ave of the Americas, New York, NY 10013/212-387-5400	5	460	27
596	**AT&T CAPITAL** 44 Whippany Rd, Morristown, NJ 07962/201-397-3000	567	495	235
954	**ATLANTA GAS LIGHT** 1219 Caroline St, Atlanta, GA 30307/404-584-4000	678	752	652
981	**ATLANTIC ENERGY** 6801 Black Horse Pike, Egg Harbor Township, NJ 08234/609-645-4500	713	592	503
61	**ATLANTIC RICHFIELD** 515 South Flower St, Los Angeles, CA 90071/213-486-3511	57	44	90
470	**ATMEL** 2125 O'Nel Dr, San Jose, CA 95131/408-441-0311	819	533	798
668	**AUTODESK** 111 McInnis Pkwy, San Rafael, CA 94903/415-507-5000	856	628	910
108	**AUTOMATIC DATA** One ADP Blvd, Roseland, NJ 07068/201-994-5000	357	179	420
332	**AUTOZONE** 123 South Front St, Memphis, TN 38103/901-495-6500	510	445	737
429	**AVERY DENNISON** 150 North Orange Grove Blvd, Pasadena, CA 91103/818-304-2000	363	450	605
547	**AVNET** 80 Cutter Mill Rd, Great Neck, NY 11021/516-466-7000	258	398	527
239	**AVON PRODUCTS** Nine West 57th St, New York, NY 10019/212-546-6015	269	254	592
548	**AVX** 801 17th Ave South, Myrtle Beach, SC 29577/803-448-9411	659	513	826

B

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
335	**BAKER HUGHES** 3900 Essex Lane, Houston, TX 77027/713-439-8600	411	492	460
311	**BALTIMORE G&E** 39 West Lexington St, Baltimore, MD 21201/410-234-5000	384	220	252
79	**BANC ONE** 100 East Broad St, Columbus, OH 43215/614-248-5944	150	49	26
736	**BANCORP HAWAII** 130 Merchant St, Honolulu, HI 96813/808-847-8888	691	510	185
828	**BANDAG** 2905 North Hwy 61, Muscatine, IA 52761/319-262-1400	775	591	895
237	**BANK OF BOSTON** 100 Federal St, Boston, MA 02110/617-434-2200	253	139	49
118	**BANK OF NEW YORK** 48 Wall St, New York, NY 10286/212-495-1784	247	75	42
41	**BANKAMERICA** 555 California St, San Francisco, CA 94137/415-622-3456	36	14	4
874	**BANKERS LIFE HOLDING** 222 Merchandise Mart Plaza, Chicago, IL 60654/312-396-6000	577	491	371
254	**BANKERS TRUST N. Y.** 280 Park Ave, New York, NY 10017/212-250-2500	155	336	22
734	**BANPONCE** 209 Munoz Rivera Ave, Hato Rey, PR 00918/809-765-9800	644	444	152
568	**BARD (C. R.)** 730 Central Ave, Murray Hill, NJ 07974/908-277-8000	665	635	757
987	**BARNES & NOBLE** 122 Fifth Ave, New York, NY 10011/212-633-3300	517	865	705
222	**BARNETT BANKS** 50 North Laura St, Jacksonville, FL 32202/904-791-7500	316	141	55
535	**BAUSCH & LOMB** Bausch & Lomb Place, Rochester, NY 14604/716-338-6000	501	544	522
96	**BAXTER INTERNATIONAL** One Baxter Pkwy, Deerfield, IL 60015/847-948-2000	245	201	220
167	**BAY NETWORKS** 4401 Great America Pkwy, Santa Clara, CA 95054/408-988-2400	534	331	692
566	**BAYBANKS** 175 Federal St, Boston, MA 02110/617-482-1040	704	481	201
428	**BEAR STEARNS** 245 Park Ave, New York, NY 10167/212-272-2000	272	200	28
937	**BECKMAN INSTRUMENTS** 2500 Harbor Blvd, Fullerton, CA 92634/714-871-4848	721	789	801
248	**BECTON, DICKINSON** One Becton Dr, Franklin Lakes, NJ 07417/201-847-6800	405	276	473
720	**BED BATH & BEYOND** 715 Morris Ave, Springfield, NJ 07081/201-379-1520	850	838	969
37	**BELL ATLANTIC** 1717 Arch St, Philadelphia, PA 19103/215-963-6000	77	28	89
22	**BELLSOUTH** 1155 Peachtree St NE, Atlanta, GA 30309/404-249-2000	43	39	69
764	**BELO (A. H.)** 400 South Record St, Dallas, TX 75202/214-977-6600	777	719	740
678	**BEMIS** 222 South Ninth St, Minneapolis, MN 55402/612-376-3000	578	642	766
443	**BENEFICIAL** 301 North Walnut St, Wilmington, DE 19801/302-425-2500	453	434	157
977	**BERGEN BRUNSWIG** 4000 Metropolitan Dr, Orange, CA 92668/714-385-4000	137	722	530
19	**BERKSHIRE HATHAWAY** 1440 Kiewit Plaza, Omaha, NE 68131/402-346-1400	275	131	73
718	**BETHLEHEM STEEL** 1170 Eighth Ave, Bethlehem, PA 18016/610-694-2424	254	385	[illegible]
837	**BETZ LABORATORIES** 4636 Somerton Rd, Trevose, PA 19053/215-355-3300	772	711	[illegible]
849	**BEVERLY ENTERPRISES** 5111 Rogers Ave, Fort Smith, AR 72919/501-452-6712	349	935	[illegible]
524	**BHC COMMUNICATIONS** 767 Fifth Ave, New York, NY 10153/212-421-0200	882	836	[illegible]
511	**BIOGEN** 14 Cambridge Center, Cambridge, MA 02142/617-679-2000	969	916	[illegible]
537	**BIOMET** Airport Industrial Park, Warsaw, IN 46580/219-267-6639	864	636	[illegible]
418	**BLACK & DECKER** 701 East Joppa Rd, Towson, MD 21286/410-716-3900	260	334	[illegible]
339	**BLOCK (H&R)** 4400 Main St, Kansas City, MO 64111/816-753-6900	576	600	[illegible]
966	**BLYTH INDUSTRIES** Two Greenwich Plaza, Greenwich, CT 06830/203-661-1926	923	885	[illegible]
435	**BMC SOFTWARE** 2101 City West Blvd, Houston, TX 77042/713-918-8800	897	702	[illegible]
207	**BOATMEN'S BANCSHARES** 800 Market St, St. Louis, MO 63102/314-466-6000	401	181	[illegible]
38	**BOEING** 9725 East Marginal Way South, Seattle, WA 98108/206-655-212[illegible]	35	190	[illegible]
661	**BOISE CASCADE** 1111 West Jefferson St, Boise, ID 83702/208-384-6161	241	210	[illegible]
650	**BOISE CASCADE OFFICE PRODS.** 800 West Bryn Mawr Ave, Itasca, IL 60143/708-773-5000	628	817	[illegible]
555	**BOSTON CHICKEN** 14103 Denver West Pkwy, Golden, CO 80401/303-278-9500	959	843	[illegible]
773	**BOSTON EDISON** 800 Boylston St, Boston, MA 02199/617-424-2000	554	542	[illegible]
149	**BOSTON SCIENTIFIC** One Boston Scientific Place, Natick, MA 01760/508-650-8000	757	798	[illegible]
735	**BOWATER** 55 East Camperdown Way, Greenville, SC 29601/803-271-7733	491	280	[illegible]
823	**BRIGGS & STRATTON** 12301 West Wirth St, Wauwatosa, WI 53222/414-259-5333	638	656	[illegible]
921	**BRINKER INTERNATIONAL** 6820 LBJ Freeway, Dallas, TX 75240/214-980-9917	667	825	[illegible]
17	**BRISTOL-MYERS SQUIBB** 345 Park Ave, New York, NY 10154/212-546-4000	73	30	[illegible]
995	**BRODERBUND SOFTWARE** 500 Redwood Blvd, Novato, CA 94948/415-382-4400	951	822	[illegible]
797	**BROOKLYN UNION GAS** One MetroTech Center, Brooklyn, NY 11201/718-403-2000	643	605	[illegible]
451	**BROWN-FORMAN** 850 Dixie Hwy, Louisville, KY 40201/502-585-1100	579	425	[illegible]
220	**BROWNING-FERRIS** 757 North Eldridge, Houston, TX 77079/713-870-8100	205	197	[illegible]
531	**BRUNSWICK** One North Field Court, Lake Forest, IL 60045/847-735-4700	373	471	[illegible]
102	**BURLINGTON NORTH. SANTA FE** 777 Main St, Fort Worth, TX 76102/817-333-2000	197	356	[illegible]
283	**BURLINGTON RESOURCES** 5051 Westheimer, Houston, TX 77056/713-624-9000	732	981	[illegible]

C

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
522	**C-CUBE MICROSYSTEMS** 1778 McCarthy Blvd, Milpitas, CA 95035/408-944-6300	972	872	[illegible]
939	**C-TEC** 105 Carnegie Center, Princeton, NJ 08540/609-734-3700	919	877	[illegible]
240	**CABLETRON SYSTEMS** 35 Industrial Way, Rochester, NH 03867/603-332-9400	696	351	[illegible]
751	**CABLEVISION SYSTEMS** One Media Crossways, Woodbury, NY 11797/516-364-8450	675	983	[illegible]
526	**CABOT** 75 State St, Boston, MA 02109/617-345-0100	518	379	[illegible]
557	**CADENCE DESIGN SYSTEMS** 2655 Seely Rd, San Jose, CA 95134/408-943-1234	852	590	[illegible]
663	**CALIBER SYSTEM** 1077 Gorge Blvd, Akron, OH 44310/216-384-8184	436	611	[illegible]

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MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
887	**CALIFORNIA ENERGY** 302 South 36th St, Omaha, NE 68131/402-341-4500	896	734	510
660	**CALLAWAY GOLF** 2285 Rutherford Rd, Carlsbad, CA 92008/619-931-1771	849	585	962
76	**CAMPBELL SOUP** Campbell Place, Camden, NJ 08103/609-342-4800	154	98	296
639	**CAPITAL ONE FINANCIAL** 2980 Fairview Park Dr, Falls Church, VA 22042/703-205-1000	695	497	372
413	**CARDINAL HEALTH** 5555 Glendon Court, Dublin, OH 43016/614-761-8700	148	621	585
607	**CAREMARK INTERNATIONAL** 2215 Sanders Rd, Northbrook, IL 60062/847-559-4700	447	887	723
156	**CARNIVAL** 3655 NW 87th Ave, Miami, FL 33178/305-599-2600	492	169	406
231	**CAROLINA POWER & LIGHT** 411 Fayetteville St, Raleigh, NC 27601/919-546-6111	379	199	254
431	**CASCADE COMMUNS.** Five Carlisle Rd, Westford, MA 01886/508-692-2600	968	870	992
331	**CASE** 700 State St, Racine, WI 53404/414-636-6011	249	215	338
93	**CATERPILLAR** 100 NE Adams St, Peoria, IL 61629/309-675-1000	53	57	137
814	**CBI INDUSTRIES** 800 Jorie Blvd, Oak Brook, IL 60521/708-572-7000	506	771	577
815	**CENTERIOR ENERGY** 6200 Oak Tree Blvd, Independence, OH 44131/216-447-3100	429	258	211
653	**CENTOCOR** 200 Great Valley Pkwy, Malvern, PA 19355/610-651-6000	984	961	968
241	**CENTRAL & SOUTH WEST** 1616 Woodall Rodgers Freeway, Dallas, TX 75202/214-777-1000	304	180	169
757	**CENTRAL FIDELITY BANKS** 1021 East Cary St, Richmond, VA 23261/804-782-4000	755	670	208
971	**CENTRAL NEWSPAPERS** 135 North Pennsylvania St, Indianapolis, IN 46204/317-231-9200	839	767	906
581	**CENTURY TELEPHONE** 100 Century Park Dr, Monroe, LA 71203/318-388-9000	813	531	623
424	**CERIDIAN** 8100 34th Ave South, Bloomington, MN 55425/612-853-8100	624	588	748
330	**CHAMPION INTERNATIONAL** One Champion Plaza, Stamford, CT 06921/203-358-7000	173	92	234
705	**CHARTER ONE FINANCIAL** 1215 Superior Ave, Cleveland, OH 44114/216-589-8320	683	850	172
91	**CHASE MANHATTAN** One Chase Manhattan Plaza, New York, NY 10081/212-552-2222	109	54	17
58	**CHEMICAL BANKING** 270 Park Ave, New York, NY 10017/212-270-6000	63	31	10
24	**CHEVRON** 575 Market St, San Francisco, CA 94105/415-894-7700	12	73	64
281	**CHIRON** 4560 Horton St, Emeryville, CA 94608/510-655-8730	690	989	686
829	**CHRIS-CRAFT INDUSTRIES** 767 Fifth Ave, New York, NY 10153/212-421-0200	872	878	559
48	**CHRYSLER** 800 Chrysler Dr East, Auburn Hills, MI 48326/313-956-5741	9	21	41
147	**CHUBB** 15 Mountain View Rd, Warren, NJ 07059/908-903-2000	201	113	98
142	**CIGNA** 1601 Chestnut St, Philadelphia, PA 19192/215-761-1000	37	342	23
542	**CINCINNATI BELL** 201 East Fourth St, Cincinnati, OH 45202/513-397-9900	623	949	671
351	**CINCINNATI FINANCIAL** 6200 South Gilmore Rd, Fairfield, OH 45014/513-870-2000	547	319	311
963	**CINCINNATI MILACRON** 4701 Marburg Ave, Cincinnati, OH 45209/513-841-8100	550	560	758
273	**CINERGY** 139 East Fourth St, Cincinnati, OH 45202/513-381-2000	376	196	257
516	**CINTAS** 6800 Cintas Blvd, Mason, OH 45040/513-459-1200	801	710	872
765	**CIPSCO** 607 East Adams St, Springfield, IL 62739/217-523-3600	744	683	631
425	**CIRCUIT CITY STORES** 9950 Mayland Dr, Richmond, VA 23233/804-527-4000	184	380	463
374	**CIRCUS CIRCUS** [illegible] Blvd South, Las Vegas, NV [illegible]	632	488	566

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
848	**CIRRUS LOGIC** 3100 West Warren Ave, Fremont, CA 94538/510-623-8300	655	701	800
40	**CISCO SYSTEMS** 170 West Tasman Dr, San Jose, CA 95134/408-526-4000	417	118	534
32	**CITICORP** 153 East 53rd St, New York, NY 10043/800-285-3000	19	8	2
449	**CITIZENS UTILITIES** High Ridge Park, Stamford, CT 06905/203-329-8800	682	426	423
624	**CLAYTON HOMES** 623 Market St, Knoxville, TN 37902/423-970-7200	745	596	828
647	**CLEAR CHANNEL** 200 Concord Plaza, San Antonio, TX 78216/210-822-2828	926	851	907
296	**CLOROX** 1221 Broadway, Oakland, CA 94612/510-271-7000	485	344	624
442	**CMS ENERGY** 330 Town Center Dr, Dearborn, MI 48126/313-436-9200	292	314	263
177	**CNA FINANCIAL** 333 South Wabash Ave, Chicago, IL 60685/312-822-5000	65	95	38
329	**COASTAL** Nine Greenway Plaza, Houston, TX 77046/713-877-1400	106	271	212
3	**COCA-COLA** One Coca-Cola Plaza NW, Atlanta, GA 30313/404-676-2121	42	11	150
341	**COCA-COLA ENTERPRISES** 2500 Windy Ridge Pkwy, Atlanta, GA 30339/770-989-3000	181	650	243
861	**COLEMAN** 1526 Cole Blvd, Golden, CO 80401/303-202-2400	719	826	821
107	**COLGATE-PALMOLIVE** 300 Park Ave, New York, NY 10022/212-310-2000	143	397	269
979	**COLTEC INDUSTRIES** 430 Park Ave, New York, NY 10022/212-940-0400	610	700	804
559	**COLUMBIA GAS SYSTEM** 20 Montchanin Rd, Wilmington, DE 19807/302-429-5000	420	987	315
44	**COLUMBIA/HCA HEALTHCARE** One Park Plaza, Nashville, TN 37203/615-327-9551	45	62	124
274	**COMCAST** 1500 Market St, Philadelphia, PA 19102/215-665-1700	342	953	231
909	**COMDISCO** 6111 North River Rd, Rosemont, IL 60018/847-698-3000	462	558	361
291	**COMERICA** 500 Woodward Ave, Detroit, MI 48226/313-222-4000	390	182	62
774	**COMMERCE BANCSHARES** 1000 Walnut, Kansas City, MO 64106/816-234-2000	778	553	232
88	**COMPAQ COMPUTER** 20555 State Hwy 249, Houston, TX 77070/713-370-0670	64	90	270
822	**COMPASS BANCSHARES** 15 South 20th St, Birmingham, AL 35233/205-933-3000	767	552	221
66	**COMPUTER ASSOCIATES** One Computer Associates Plaza, Islandia, NY 11788/516-342-5224	356	972	364
316	**COMPUTER SCIENCES** 2100 East Grand Ave, El Segundo, CA 90245/310-615-0311	281	473	515
976	**COMPUWARE** 31440 Northwestern Hwy, Farmington Hills, MI 48334/810-737-7300	838	819	914
890	**COMSAT** 6560 Rock Springs Dr, Bethesda, MD 20817/301-214-3000	743	834	546
114	**CONAGRA** One ConAgra Dr, Omaha, NE 68102/402-595-4000	22	142	178
947	**CONCORD EFS** 2525 Horizon Lake Dr, Memphis, TN 38133/901-371-8000	971	893	991
216	**CONRAIL** 2001 Market St, Philadelphia, PA 19101/215-209-2000	309	275	248
756	**CONSECO** 11825 North Pennsylvania St, Carmel, IN 46032/317-817-6100	394	327	129
164	**CONSOLIDATED EDISON** Four Irving Place, New York, NY 10003/212-460-4600	186	108	165
904	**CONS. FREIGHTWAYS** 3240 Hillview Ave, Palo Alto, CA 94304/415-494-2900	229	757	492
319	**CONS. NATURAL GAS** 625 Liberty Ave, Pittsburgh, PA 15222/412-227-1000	344	881	341
517	**CONSOLIDATED PAPERS** 231 First Ave North, Wisconsin Rapids, WI 54495/715-422-3111	566	317	608
824	**CONSOLIDATED STORES** 300 Phillipi Rd, Columbus, OH 43228/614-278-6800	582	728	846
883	**CONTIFINANCIAL** 277 Park Ave, New York, NY 10172/212-207-2800	NR	NR	823

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
775	**CONTINENTAL AIRLINES** 2929 Allen Pkwy, Houston, TX 77019/713-834-5000	209	323	3[illegible]
313	**COOPER INDUSTRIES** 1000 Fannin St, Houston, TX 77002/713-739-5400	252	261	3[illegible]
553	**COOPER TIRE & RUBBER** 701 Lima Ave, Findlay, OH 45840/419-423-1321	585	537	7[illegible]
219	**CORESTATES FINANCIAL** 1500 Market St, Philadelphia, PA 19102/215-973-3100	398	167	[illegible]
169	**CORNING** One Riverfront Plaza, Corning, NY 14831/607-974-9000	225	958	3[illegible]
723	**CORPORATE EXPRESS** 325 Interlocken Pkwy, Broomfield, CO 80021/303-373-2800	706	897	8[illegible]
714	**CORRECTIONS CORP.** 102 Woodmont Blvd, Nashville, TN 37205/615-292-3100	946	899	9[illegible]
551	**COUNTRYWIDE CREDIT** 155 North Lake Ave, Pasadena, CA 91101/818-304-8400	603	423	2[illegible]
217	**COX COMMUNICATIONS** 1400 Lake Hearn Dr NE, Atlanta, GA 30319/404-843-5000	635	566	3[illegible]
119	**CPC INTERNATIONAL** 700 Sylvan Ave, Englewood Cliffs, NJ 07632/201-894-4000	140	146	2[illegible]
809	**CRACKER BARREL** 305 Hartmann Dr, Lebanon, TN 37087/615-444-5533	740	715	8[illegible]
830	**CRANE** 100 First Stamford Place, Stamford, CT 06902/203-363-7300	524	678	7[illegible]
481	**CRESTAR FINANCIAL** 919 East Main St, Richmond, VA 23219/804-782-5000	613	384	1[illegible]
213	**CROWN CORK & SEAL** 9300 Ashton Rd, Philadelphia, PA 19136/215-698-5100	244	687	2[illegible]
129	**CSX** 901 East Cary St, Richmond, VA 23219/804-782-1400	105	123	1[illegible]
221	**CUC INTERNATIONAL** 707 Summer St, Stamford, CT 06901/203-324-9261	639	440	7[illegible]
656	**CUMMINS ENGINE** 500 Jackson St, Columbus, IN 47201/812-377-5000	231	324	4[illegible]
916	**CYPRESS SEMICONDUCTOR** 3901 North First St, San Jose, CA 95134/408-943-2600	831	571	8[illegible]
495	**CYPRUS AMAX MINERALS** 9100 East Mineral Circle, Englewood, CO 80112/303-643-5000	353	502	3[illegible]
791	**CYTEC INDUSTRIES** Five Garret Mountain Plaza, West Paterson, NJ 07424/201-357-[illegible]	641	256	7[illegible]

D

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
394	**DANA** 4500 Dorr St, Toledo, OH 43615/419-535-4500	152	252	3[illegible]
579	**DANAHER** 1250 24th St NW, Washington, DC 20037/202-828-0850	586	559	6[illegible]
585	**DARDEN RESTAURANTS** 5900 Lake Ellenor Dr, Orlando, FL 32809/407-245-4000	352	904	5[illegible]
990	**DAVIDSON & ASSOCIATES** 19840 Pioneer Ave, Torrance, CA 90503/310-793-0600	965	901	9[illegible]
242	**DAYTON HUDSON** 777 Nicollet Mall, Minneapolis, MN 55402/612-370-6948	28	204	1[illegible]
932	**DEAN FOODS** 3600 North River Rd, Franklin Park, IL 60131/847-678-1680	414	695	6[illegible]
137	**DEAN WITTER, DISCOVER** Two World Trade Center, New York, NY 10048/212-392-2222	214	80	[illegible]
117	**DEERE** John Deere Rd, Moline, IL 61265/309-765-8000	104	103	1[illegible]
383	**DELL COMPUTER** 2214 West Braker Lane, Austin, TX 78758/512-338-4400	228	268	5[illegible]
768	**DELMARVA POWER & LIGHT** 800 King St, Wilmington, DE 19899/302-454-0300	698	525	4[illegible]
322	**DELTA AIR LINES** 1050 Delta Blvd, Atlanta, GA 30320/404-715-2600	94	148	1[illegible]
460	**DELUXE** 1080 West County Rd F, St. Paul, MN 55126/612-483-7111	516	602	7[illegible]
912	**DENTSPLY INTERNATIONAL** 570 West College Ave, York, PA 17404/717-845-7511	841	768	8[illegible]
436	**DIAL** 1850 North Central Ave, Phoenix, AZ 85077/602-207-4000	321	925	4[illegible]
792	**DIAMOND OFFSHORE** 15415 Katy Freeway, Houston, TX 77094/713-492-5300	911	934	8[illegible]

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 146.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
627	**DIEBOLD** 5595 Mayfa r Rd North Canton, OH 4472[illegible]	734	679	851
109	**DIGITAL EQUIPMENT** 111 Powdermill Rd, Maynard MA [illegible]754/5[illegible]111	66	176	225
347	**DILLARD DEPT. STORES** 1600 Cantrell Rd, Little Rock, AR 72201/501-376-5200	203	281	350
881	**DIME BANCORP** 589 Fifth Ave, New York, NY 10017/212-326-6170	604	741	110
29	**DISNEY (WALT)** 500 South Buena Vista St, Burbank, CA 91521/818-560-1000	90	43	148
494	**DOLE FOOD** 31355 Oak Crest Dr, Westlake Village, CA 91361/818-879-6600	298	516	528
686	**DOLLAR GENERAL** 104 Woodmont Blvd, Nashville, TN 37205/615-783-2000	542	649	837
179	**DOMINION RESOURCES** 901 East Byrd St, Richmond, VA 23219/804-775-5700	265	159	164
235	**DONNELLEY (R. R.)** 77 West Wacker Dr, Chicago, IL 60601/312-326-8000	187	245	344
256	**DOVER** 280 Park Ave, New York, NY 10017/212-922-1640	303	264	500
55	**DOW CHEMICAL** 2030 Dow Center, Midland, MI 48674/517-636-1000	32	25	94
333	**DOW JONES** 200 Liberty St, New York, NY 10281/212-416-2000	455	369	517
474	**DPL** 1065 Woodman Dr, Dayton, OH 45432/513-224-6000	636	411	447
521	**DQE** 301 Grant St, Pittsburgh, PA 15279/412-393-6000	648	388	391
255	**DRESSER INDUSTRIES** 2001 Ross Ave Dallas, TX 75201/214-740-6000	210	328	380
348	**DSC COMMUNICATIONS** 1000 Coit Rd, Plano, TX 75075/214-519-3000	605	363	640
652	**DST SYSTEMS** 1004 Baltimore St, Kansas City, MO 64105/816-435-1000	NR	NR	867
250	**DTE ENERGY** 2000 Second Ave, Detroit, MI 48226/313-235-8000	315	175	204
123	**DUKE POWER** 422 South Church St, Charlotte, NC 28242/704-594-0887	262	109	174
110	**DUN & BRADSTREET** 187 Danbury Rd, Wilton, CT 06897/203-834-4200	222	232	335
18	**DUPONT** 1007 Market St, Wilmington, DE 19898/302-774-1000	11	10	58
209	**DURACELL INTERNATIONAL** Berkshire Corporate Park, Bethel, CT 06801/203-796-4000	472	297	507

E

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
227	**EASTMAN CHEMICAL** 100 North Eastman Rd, Kingsport, TN 37660/423-229-2000	246	135	365
42	**EASTMAN KODAK** 343 State St, Rochester, NY 14650/716-724-4000	61	50	158
290	**EATON** [illegible]perior Ave, Cleveland, OH 44[illegible]14/216-523-5000	176	187	360
562	**ECHLIN** 100 Double Beach Rd, Branford, CT 06405/203-481-5751	400	428	594
841	**ECHOSTAR COMMUNS.** 90 Inverness Circle East, Englewood, CO 80112/303-799-8222	957	938	894
693	**ECKERD** 8333 Bryan Dairy Rd, Largo, FL 34647/813-399-6000	257	608	678
586	**ECOLAB** 370 North Wabasha St, St Paul, MN 55102/612-293-2233	621	583	763
159	**EDISON INTERNATIONAL** 2244 Walnut Grove Ave, Rosemead, CA 91770/818-302-1212	142	91	91
707	**EDWARDS (A. G.)** One North Jefferson Ave, St Louis, MO 63103/314-289-3000	619	433	513
876	**EG&G** 45 William St, Wellesley, MA 02181/617-237-5100	607	765	827
867	**EL PASO NATURAL GAS** 100 North Stanton St, El Paso, TX 79901/915-541-2600	684	638	531
782	**ELECTRONIC ARTS** 1450 Fashion Island Blvd, San Mateo, CA 94404/415-571-7171	858	807	932
NR	**ELECTRONIC DATA** 5400 Legacy Dr, Plano, TX 75024/214-604-6000	NR	NR	NR
871	**ELECTRONICS FOR IMAGING** 2855 Campus Dr, San Mateo, CA 94403/415-286-8600	950	835	980
258	**EMC** 171 South St, Hopkinton, MA 01748/508-435-1000	504	227	643
62	**EMERSON ELECTRIC** 8000 West Florissant Ave, St. Louis, MO 63136/314-553-2000	112	72	229
411	**ENGELHARD** 101 Wood Ave, Iselin, NJ 08830/908-205-6000	397	462	681
452	**ENOVA** 101 Ash St, San Diego, CA 92101/619-696-2000	512	313	377
136	**ENRON** 1400 Smith St, Houston, TX 77002/713-853-6161	127	144	176
321	**ENRON OIL & GAS** 1400 Smith St, Houston, TX 77002/713-853-6161	810	455	575
730	**ENSCO INTERNATIONAL** 1445 Ross Ave, Dallas, TX 75202/214-922-1500	927	818	822
926	**ENSERCH** 300 South St. Paul St, Dallas, TX 75201/214-651-8700	502	903	454
850	**ENSERCH EXPLORATION** 1817 Wood St, Dallas, TX 75201/214-741-3711	939	939	639
197	**ENTERGY** 639 Loyola Ave, New Orleans, LA 70113/504-529-5262	194	132	99
395	**EQUIFAX** 1600 Peachtree St NW, Atlanta, GA 30309/404-885-8000	557	441	762
277	**EQUITABLE** 787 Seventh Ave, New York, NY 10019/212-554-1234	163	213	20
832	**EQUITABLE OF IOWA** 604 Locust St, Des Moines, IA 50309/515-245-6911	768	643	228
950	**EQUITABLE RESOURCES** 420 Blvd of the Allies, Pittsburgh, PA 15219/412-261-3000	602	924	607
891	**EQUITY RESIDENTIAL** Two North Riverside Plaza, Chicago, IL 60606/312-474-1300	899	731	581
304	**ESTEE LAUDER** 767 Fifth Ave, New York, NY 10153/212-572-4200	366	457	630
804	**ETHYL** 330 South Fourth St, Richmond, VA 23219/804-788-5000	707	691	781
4	**EXXON** 5959 Las Colinas Blvd, Irving, TX 75039/214-444-1000	3	3	25

F

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
27	**FANNIE MAE** 3900 Wisconsin Ave NW, Washington, DC 20016/202-752-7000	29	20	1
760	**FASTENAL** 2001 Theurer Blvd, Winona, MN 55987/507-454-5374	938	867	993
82	**FEDERAL HOME LOAN** 8200 Jones Branch Dr, McLean, VA 22102/800-424-5401	125	59	13
310	**FEDERAL EXPRESS** 2005 Corporate Ave, Memphis, TN 38132/901-369-3600	119	235	295
476	**FEDERAL PAPER BOARD** 75 Chestnut Ridge Rd, Montvale, NJ 07645/201-391-1776	507	454	497
866	**FEDERAL SIGNAL** 1415 West 22nd St, Oak Brook, IL 60521/708-954-2000	750	782	876
210	**FEDERATED DEPT. STORES** Seven West Seventh St, Cincinnati, OH 45202/513-579-7000	60	689	147
776	**FHP INTERNATIONAL** 9900 Talbert Ave, Fountain Valley, CA 92708/714-963-7233	285	876	540
252	**FIFTH THIRD BANCORP** 38 Fountain Square Plaza, Cincinnati, OH 45263/513-579-5300	589	253	132
722	**FINA** 8350 North Central Expwy, Dallas, TX 75206/214-750-2400	318	564	516
733	**FINOVA GROUP** 1850 North Central Ave, Phoenix, AZ 85002/602-207-4900	763	586	291
779	**FIRST AMERICAN** 300 Union St, Nashville, TN 37237/615-748-2000	781	568	230
173	**FIRST BANK SYSTEM** 601 Second Ave South, Minneapolis, MN 55402/612-973-1111	395	129	65
884	**FIRST BRANDS** 83 Wooster Heights Rd, Danbury, CT 06813/203-731-2300	679	774	819
86	**FIRST CHICAGO NBD** 611 Woodward Ave, Detroit, MI 48226/313-225-1000	115	56	16
834	**FIRST COLONY** 901 East Byrd St, Richmond, VA 23219/804-775-0300	546	436	209
827	**FIRST COMMERCE** 210 Baronne St, New Orleans, LA 70112/504-561-1371	834	658	2
74	**FIRST DATA** 401 Hackensack Ave, Hackensack NJ 07601/201-525-4700	283	968	1
701	**FIRST EMPIRE STATE** One M&T Plaza, Buffalo, NY 14203/716-842-4200	700	479	1
97	**FIRST INTERSTATE** 633 West Fifth St, Los Angeles, CA 90017/213-614-3001	267	78	
441	**FIRST OF AMERICA BANK** 211 South Rose St, Kalamazoo, MI 49007/616-376-9000	475	307	
574	**FIRST SECURITY** 79 South Main St, Salt Lake City, UT 84111/801-246-6000	653	514	1
556	**FIRST TENNESSEE NATIONAL** 165 Madison Ave, Memphis, TN 38103/901-523-4444	627	412	1
65	**FIRST UNION** 301 South College St, Charlotte, NC 28288/704-374-6161	126	41	
403	**FIRST USA** 1601 Elm St, Dallas, TX 75201/214-849-2000	NR	360	2
762	**FIRST VIRGINIA BANKS** 6400 Arlington Blvd, Falls Church, VA 22042/703-241-4000	829	545	2
371	**FIRSTAR** 777 East Wisconsin Ave, Milwaukee, WI 53202/414-765-4316	531	318	1
964	**FIRSTMERIT** 111 Cascade Plaza, Akron, OH 44308/216-996-6300	888	805	3
749	**FISERV** 255 Fiserv Dr, Brookfield, WI 53045/414-879-5000	794	962	6
225	**FLEET FINANCIAL GROUP** One Federal St, Boston, MA 02211/617-346-2000	167	125	
833	**FLEETWOOD ENTERPRISES** 3125 Myers St, Riverside, CA 92513/909-351-3500	403	659	7
667	**FLIGHTSAFETY INTL.** Marine Air Terminal, La Guardia Airport, Flushing, NY 11371/718-565-	917	644	8
355	**FLORIDA PROGRESS** One Progress Plaza, St. Petersburg, FL 33701/813-824-6400	371	291	3
232	**FLUOR** 3333 Michelson Dr, Irvine, CA 92730/714-975-2000	122	304	4
454	**FMC** 200 East Randolph Dr Chicago, IL 60601/312-861-6000	268	335	4
461	**FOOD LION** 2110 Executive Dr, Salisbury, NC 28147/704-633-8250	147	395	5
25	**FORD MOTOR** The American Rd, Dearborn, MI 48121/313-322-3000	2	6	
414	**FORE SYSTEMS** 174 Thorn Hill Rd, Warrendale, PA 15086/412-772-6600	966	902	9
500	**FOREST LABORATORIES** 909 Third Ave, New York, NY 10022/212-421-7850	883	551	8
731	**FORT HOWARD** 1919 South Broadway, Green Bay, WI 54304/414-435-8821	558	844	6
690	**FOSTER WHEELER** Perryville Corporate Park, Clinton, NJ 08809/908-730-4000	372	861	5
530	**FOUNDATION HEALTH** 3400 Data Dr, Rancho Cordova, CA 95670/916-631-5000	406	427	5
150	**FPL GROUP** 700 Universe Blvd, Juno Beach, FL 33408/407-694-4600	219	127	1
279	**FRANKLIN RESOURCES** 777 Mariners Island Blvd, San Mateo, CA 94404/415-312-2000	738	263	5
858	**FREEPORT-McMORAN** 1615 Poydras St, New Orleans, LA 70112/504-582-4000	697	612	7
195	**FREEPORT-McMORAN C&G** 1615 Poydras St, New Orleans, LA 70112/504-582-4000	520	286	4
783	**FRITZ** 706 Mission St, San Francisco, CA 94103/415-904-8360	NR	NR	8
269	**FRONTIER** 180 South Clinton Ave, Rochester, NY 14646/716-777-1000	474	448	5
599	**FRUIT OF THE LOOM** 233 South Wacker Dr, Chicago, IL 60606/312-876-1724	444	978	4

G

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
128	**GANNETT** 1100 Wilson Blvd, Arlington, VA 22234/703-284-6000	287	156	3
162	**GAP (THE)** One Harrison St, San Francisco, CA 94105/415-952-4400	271	208	5

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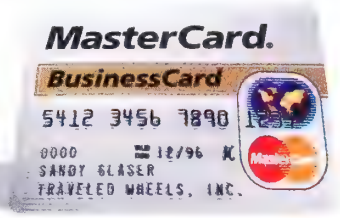

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MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
493	**GARTNER GROUP**	929	855	953
552	**GATEWAY 2000** 610 Gateway Dr, North Sioux City, SD 57049/605-232-2000	311	391	749
487	**GAYLORD ENTERTAINMENT** One Gaylord Dr, Nashville, TN 37214/615-316-6000	793	724	756
193	**GENENTECH**	724	443	600
334	**GENERAL DYNAMICS**	370	296	462
1	**GENERAL ELECTRIC** 3135 Easton Turnpike, Fairfield, CT 06431/203-373-2211	8	2	5
353	**GENERAL INSTRUMENT** 8770 West Bryn Mawr Ave, Chicago, IL 60631/312-695-1000	438	504	548
140	**GENERAL MILLS**	236	250	432
23	**GENERAL MOTORS** 3044 West Grand Blvd, Detroit, MI 48202/313-556-5000	1	1	6
584	**GENERAL NUTRITION** 921 Penn Ave, Pittsburgh, PA 15222/412-288-4600	753	744	868
320	**GENERAL PUBLIC UTILITIES** 100 Interpace Pkwy, Parsippany, NJ 07054/201-263-6500	296	154	227
103	**GENERAL RE**	165	83	61
628	**GENERAL SIGNAL** One High Ridge Park, Stamford, CT 06904/203-329-4100	514	579	666
619	**GENETICS INSTITUTE** 87 Cambridgepark Dr, Cambridge, MA 02140/617-876-1170	956	945	927
247	**GENUINE PARTS** 2999 Circle 75 Pkwy, Atlanta, GA 30339/770-953-1700	230	238	571
407	**GENZYME** One Kendall Square, Cambridge, MA 02139/617-252-7500	905	896	853
855	**GEORGIA GULF** 400 Perimeter Center Terrace, Atlanta, GA 30346/770-395-4500	674	372	913
226	**GEORGIA-PACIFIC** 133 Peachtree St NE, Atlanta, GA 30303/404-652-4000	69	67	189
592	**GIANT FOOD**	299	584	693
43	**GILLETTE** Prudential Tower Building, Boston, MA 02199/617-421-7000	180	84	305
459	**GLENAYRE TECHNOLOGIES** 5935 Carnegie Blvd, Charlotte, NC 28209/704-553-0038	921	677	923
929	**GLOBAL DIRECTMAIL** 22 Harbor Park Dr, Port Washington, NY 11050/516-625-1555	818	846	974
728	**GLOBAL MARINE** 777 North Eldridge Rd, Houston, TX 77079/713-596-5100	873	781	892
404	**GOLDEN WEST FINANCIAL** 1901 Harrison St, Oakland, CA 94612/510-446-6000	434	311	63
577	**GOODRICH (B. F.)** 3925 Embassy Pkwy, Akron, OH 44333/216-374-2000	443	522	524
176	**GOODYEAR TIRE & RUBBER** 1144 East Market St, Akron, OH 44316/216-796-2121	83	124	222
186	**GRACE (W. R.)** One Town Center Rd, Boca Raton, FL 33486/407-362-2000	305	977	306
350	**GRAINGER (W. W.)** 5500 West Howard St, Skokie, IL 60077/847-982-9000	346	371	656
908	**GRAND CASINOS** 13705 First Ave North, Plymouth, MN 55441/612-449-9092	901	705	815
280	**GREAT LAKES CHEMICAL** One Great Lakes Blvd, West Lafayette, IN 47906/317-497-6100	449	247	544
286	**GREAT WESTERN**	323	278	51
305	**GREEN TREE FINANCIAL** 345 St Peter St, St Paul, MN 55102/612-293-3434	788	285	533
753	**GREENPOINT FINANCIAL**	779	554	155
21	**GTE** One Stamford Forum, Stamford, CT 06904/203-965-2000	33	16	59
748	**GTECH HOLDINGS** 55 Technology Way, West Greenwich, RI 02817/401-392-1000	776	754	825
357	**GUIDANT**	720	576	770

H

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
203	**HALLIBURTON** 500 North Akard St, Dallas, TX 75201/214-978-2600	213	312	424
948	**HANNA (M. A.)** 200 Public Square, Cleveland, OH 44114/216-589-4000	508	759	725
865	**HANNAFORD BROTHERS** 145 Pleasant Hill Rd, Scarborough, ME 04074/207-883-2911	423	703	784
385	**HARCOURT GENERAL** 27 Boylston St, Chestnut Hill, MA 02167/617-232-8200	369	382	479
440	**HARLEY-DAVIDSON** 3700 West Juneau Ave, Milwaukee, WI 53208/414-342-4680	617	546	824
641	**HARNISCHFEGER** 13400 Bishops Lane, Brookfield, WI 53005/414-671-4400	445	543	595
439	**HARRAH'S ENTERTAINMENT** 1023 Cherry Rd, Memphis, TN 38117/901-762-8600	574	666	663
469	**HARRIS** 1025 West NASA Blvd, Melbourne, FL 32919/407-727-9100	328	413	472
662	**HARSCO** 350 Poplar Church Rd, Camp Hill, PA 17011/717-763-7064	583	589	715
938	**HARTFORD STEAM BOILER** One State St, Hartford, CT 06102/203-722-1866	804	738	783
398	**HASBRO** 1027 Newport Ave, Pawtucket, RI 02861/401-431-8697	392	429	504
879	**HAWAIIAN ELECTRIC** 900 Richards St, Honolulu, HI 96813/808-543-5662	633	645	331
324	**HBO** 301 Perimeter Center North, Atlanta, GA 30346/770-393-6000	867	948	904
957	**HEALTH & RETIREMENT** 400 Centre St, Newton, MA 02158/617-332-3990	976	730	779
812	**HEALTH CARE & RETIREMENT** One Seagate, Toledo, OH 43604/419-252-5500	787	786	849
982	**HEALTH CARE PROPERTY** 10990 Wilshire Blvd, Los Angeles, CA 90024/310-473-1990	979	657	866
538	**HEALTH MANAGEMENT** 5811 Pelican Bay Blvd, Naples, FL 33963/941-598-3131	845	718	918
644	**HEALTH SYSTEMS INTL.** 21600 Oxnard St, Woodland Hills, CA 91367/818-719-8900	410	623	771
649	**HEALTHCARE COMPARE**	942	721	960
492	**HEALTHSOURCE** Two College Park Dr, Hooksett, NH 03106/603-268-7000	660	760	807
368	**HEALTHSOUTH** Two Perimeter Park South, Birmingham, AL 35243/205-967-7116	570	665	573
95	**HEINZ (H. J.)** 600 Grant St, Pittsburgh, PA 15219/412-456-5700	138	120	247
194	**HERCULES** 1313 North Market St, Wilmington, DE 19894/302-594-5000	441	222	523
224	**HERSHEY FOODS** 100 Crystal A Dr, Hershey, PA 17033/717-534-6799	307	257	486
11	**HEWLETT-PACKARD** 3000 Hanover St, Palo Alto, CA 94304/415-857-1501	17	15	82
270	**HFS** 339 Jefferson Rd, Parsippany, NJ 07054/201-428-9700	891	661	741
795	**HIBERNIA** 313 Carondelet St, New Orleans, LA 70130/504-533-3333	824	503	282
515	**HILLENBRAND INDUSTRIES** 700 State Route 46 East, Batesville, IN 47006/812-934-7000	556	622	466
288	**HILTON HOTELS** 9336 Civic Center Dr, Beverly Hills, CA 90210/310-278-4321	549	393	468
52	**HOME DEPOT**	58	105	284
986	**HOME SHOPPING NETWORK** 2501 118th Ave North, St Petersburg, FL 33716/813-572-8585	692	963	925
456	**HOMESTAKE MINING** 650 California St, San Francisco, CA 94108/415-981-8150	786	853	711
185	**HONEYWELL**	183	221	359
835	**HORIZON/CMS HEALTHCARE** 6001 Indian School Rd NE, Albuquerque, NM 87110/505-881-4961	649	910	689
598	**HORMEL FOODS**	374	561	731
563	**HOST MARRIOTT** 10400 Fernwood Rd, Bethesda, MD 20817/301-380-9000	871	964	429
190	**HOUSEHOLD INTL.** 2700 Sanders Rd, Prospect Heights, IL 60070/847-564-5000	238	166	
218	**HOUSTON INDUSTRIES** 4400 Post Oak Pkwy, Houston, TX 77027/713-629-3000	310	173	
543	**HUBBELL** 584 Derby-Milford Rd, Orange, CT 06477/203-799-4100	663	508	
NR	**HUGHES ELECTRONICS** 7200 Hughes Terrace, Los Angeles, CA 90080/310-568-7200	NR	NR	
325	**HUMANA** 500 West Main St, Louisville, KY 40202/502-580-1000	266	367	
388	**HUNTINGTON BANCSHARES** 41 South High St, Columbus, OH 43287/614-480-8300	539	299	

I

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
7	**IBM** Old Orchard Rd, Armonk, NY 10504/914-765-1900	7	5	
499	**IBP** IBP Ave, Dakota City, NE 68731/402-494-2061	89	262	
895	**IDAHO POWER** 1221 West Idaho St, Boise, ID 83702/208-388-2200	853	633	
645	**IDEXX LABORATORIES** One Idexx Dr, Westbrook, ME 04092/207-856-0300	952	880	
716	**ILLINOIS CENTRAL** 455 North Cityfront Plaza Dr, Chicago, IL 60611/312-755-7500	814	509	
160	**ILLINOIS TOOL WORKS** 3600 West Lake Ave, Glenview, IL 60025/847-724-7500	279	193	
549	**ILLINOVA** 500 South 27th St, Decatur, IL 62521/217-424-6600	553	389	
488	**IMC GLOBAL** 2100 Sanders Rd, Northbrook, IL 60062/847-272-9200	482	437	
594	**INFINITY BROADCASTING** 600 Madison Ave, New York, NY 10022/212-750-6400	918	763	
268	**INFORMIX** 4100 Bohannon Dr, Menlo Park, CA 94025/415-926-6300	790	563	
292	**INGERSOLL-RAND** 200 Chestnut Ridge Rd, Woodcliff Lake, NJ 07675/201-573-012	212	272	
856	**INLAND STEEL INDUSTRIES** 30 West Monroe St, Chicago, IL 60603/312-346-0300	259	442	
813	**INPUT/OUTPUT** 12300 Parc Crest Dr, Stafford, TX 77477/713-933-3339	949	863	
529	**INTEGRA FINANCIAL** Four PPG Place, Pittsburgh, PA 15222/412-644-7669	657	490	
998	**INTEGRATED DEVICE** 2975 Stender Way, Santa Clara, CA 95054/408-727-6116	812	505	
14	**INTEL** 2200 Mission College Blvd, Santa Clara, CA 95052/408-765-808	52	7	
233	**INTERNATIONAL FLAVORS** 521 West 57th St, New York, NY 10019/212-765-5500	600	290	
611	**INTL. GAME TECHNOLOGY** 5270 Neil Rd, Reno, NV 89502/702-686-1200	825	601	
132	**INTERNATIONAL PAPER** Two Manhattanville Rd, Purchase, NY 10577/914-397-1500	34	55	
927	**INTERNATIONAL RECTIFIER** 233 Kansas St, El Segundo, CA 90245/310-322-3331	865	777	
836	**INTL. SPECIALTY PRODUCTS** 1361 Alps Rd, Wayne, NJ 07470/201-628-4000	796	716	
956	**INTERNEURON PHARM.** 99 Hayden Ave, Lexington, MA 02173/617-861-8444	989	941	
372	**INTERPUBLIC GROUP** 1271 Ave of the Americas, New York, NY 10020/212-399-800	471	482	
399	**INTUIT** 1840 Embarcadero Rd, Palo Alto, CA 94303/415-944-6000	869	933	
889	**IOMEGA** 1821 West Iomega Way, Roy, UT 84067/801-778-1000	916	908	
721	**IPALCO ENTERPRISES** One Monument Circle, Indianapolis, IN 46204/317-261-8261	789	574	
199	**ITT** 1330 Ave of the Americas, New York, NY 10019/212-258-1000	192	76	
214	**ITT HARTFORD GROUP** Hartford Plaza, Hartford, CT 06115/860-547-2403	95	134	
393	**ITT INDUSTRIES** 1330 Ave of the Americas, New York, NY 10019/212-258-1000	136	884	

Trevino

Snead

Rodriguez

Palmer

VS.

Watch the Legends team up to battle the TPC® Stadium Course at PGA WEST.

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Liberty Mutual Legends of Golf®

They grow more legendary every year. Champions like Lee Trevino, Chi Chi Rodriguez and Arnold Palmer. Again this year, they'll be doing battle on the legendary TPC Stadium Course at PGA WEST. Add that to the unique team best-ball format they'll be playing, and there's no telling who will emerge victorious.

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The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 146.

Rank	Company	Sales	Profits	Assets
360	IVAX	642	529	709

J

Rank	Company	Sales	Profits	Assets
534	JAMES RIVER 120 Tredegar St, Richmond, VA 23219/804-644-5411	179	498	278
810	JEFFERSON SMURFIT 8182 Maryland Ave, St. Louis, MO 63105/314-746-1100	282	293	485
327	JEFFERSON-PILOT 100 North Greene St, Greensboro, NC 27401/910-691-3000	569	283	260
8	JOHNSON & JOHNSON [illegible] New Brunswick, NJ 08933/908-524-0400	38	18	127
408	JOHNSON CONTROLS [illegible] Milwaukee, WI 53209/414-228-1200	139	352	363
898	JONES APPAREL GROUP [illegible] Bristol, PA 19007/215-785-4000	764	733	928

K

Rank	Company	Sales	Profits	Assets
724	K-III COMMUNICATIONS [illegible] Ave, New York, NY 10151/212-745-0100	680	966	617
900	KAISER ALUMINUM 5847 San Felipe, Houston, TX 77057/713-267-3777	464	748	490
691	KANSAS CITY POWER 1201 Walnut St, Kansas City, MO 64106/816-556-2200	731	507	480
606	KANSAS CITY SOUTHERN 114 West 11th St, Kansas City, MO 64105/816-556-0303	765	308	520
68	KELLOGG One Kellogg Square, Battle Creek, MI 49016/616-961-2000	172	152	390
892	KELLY SERVICES 999 West Big Beaver Rd, Troy, MI 48084/810-362-4444	416	709	859
400	KERR-McGEE 123 Robert S. Kerr Ave, Oklahoma City, OK 73102/405-270-1313	521	947	461
144	KEYCORP 127 Public Square, Cleveland, OH 44114/216-689-3000	207	89	34
99	KIMBERLY-CLARK 551 Phelps Dr, Irving, TX 75038/214-281-1200	72	845	277
703	KING WORLD PRODUCTIONS 1700 Broadway, New York, NY 10019/212-315-4000	836	474	844
838	KLA INSTRUMENTS 160 Rio Robles, San Jose, CA 95134/408-432-4200	844	575	875
380	KMART 3100 West Big Beaver Rd, Troy, MI 48084/810-643-1000	16	988	131
364	KNIGHT-RIDDER One Herald Plaza, Miami, FL 33132/305-376-3800	408	408	471
519	KOHL'S N54 W13600 Woodale Dr, Menomonee Falls, WI 53051/414-783-5800	523	725	793
689	KOMAG 275 South Hillview Dr, Milpitas, CA 95035/408-946-2300	862	555	860
284	KROGER 1014 Vine St, Cincinnati, OH 45202/513-762-4000	23	234	366
894	KU ENERGY One Quality St, Lexington, KY 40507/606-255-2100	797	668	651

L

Rank	Company	Sales	Profits	Assets
741	LA QUINTA INNS 112 East Pecan St, San Antonio, TX 78205/210-302-6000	890	783	795
985	LABORATORY CORP. 4225 Executive Square, La Jolla, CA 92037/619-550-0600	601	932	629
800	LAFARGE [illegible]	591	483	646
946	LAM RESEARCH 4650 Cushing Pkwy, Fremont, CA 94538/510-659-0200	687	520	833
864	LANCASTER COLONY 37 West Broad St, Columbus, OH 43215/614-224-7141	749	694	931
729	LCI INTERNATIONAL 8180 Greensboro Dr, McLean, VA 22102/703-442-0220	802	785	836
631	LEAR SEATING 21557 Telegraph Rd, Southfield, MI 48034/810-746-1500	261	604	467
936	LEE ENTERPRISES 215 North Main St, Davenport, IA 52801/319-383-2100	881	756	890
589	LEGGETT & PLATT One Leggett Rd, Carthage, MO 64836/417-358-8131	487	470	734
472	LEHMAN BROTHERS Three World Financial Center, New York, NY 10285/212-526-7000	368	301	18
682	LEUCADIA NATIONAL 315 Park Ave South, New York, NY 10010/212-460-1900	587	667	353
698	LEXMARK INTL. GROUP 55 Railroad Ave, Greenwich, CT 06836/203-629-6700	473	794	745
739	LG&E ENERGY 220 West Main St, Louisville, KY 40202/502-627-2000	608	625	519
31	LILLY (ELI) Lilly Corporate Center, Indianapolis, IN 46285/317-276-2000	182	46	162
206	LIMITED (THE) Three Limited Pkwy, Columbus, OH 43230/614-479-7000	151	69	355
940	LIN TELEVISION Four Richmond Square, Providence, RI 02906/401-454-2880	941	832	869
228	LINCOLN NATIONAL 1300 South Clinton St, Fort Wayne, IN 46802/219-455-2000	185	153	36
352	LINEAR TECHNOLOGY 1630 McCarthy Blvd, Milpitas, CA 95035/408-432-1900	914	540	922
505	LITTON INDUSTRIES 21240 Burbank Blvd, Woodland Hills, CA 91367/818-598-5000	339	449	508
512	LIZ CLAIBORNE 1441 Broadway, New York, NY 10018/212-354-4900	484	496	710
80	LOCKHEED MARTIN 6801 Rockledge Dr, Bethesda, MD 20817/301-897-6000	25	115	128
635	LOCTITE Ten Columbus Blvd, Hartford, CT 06106/203-520-5000	761	647	854
122	LOEWS 667 Madison Ave, New York, NY 10021/212-545-2000	39	33	35
846	LONE STAR STEAKHOUSE 224 East Douglas, Wichita, KS 67202/316-264-8899	910	801	943
558	LONG ISLAND LIGHTING 175 East Old Country Rd, Hicksville, NY 11801/516-755-6650	367	241	181
152	LORAL 600 Third Ave, New York, NY 10016/212-697-1105	198	219	320
746	LOUISIANA LAND 909 Poydras St, New Orleans, LA 70112/504-566-6500	748	890	688
483	LOUISIANA-PACIFIC 111 SW Fifth Ave, Portland, OR 97204/[illegible]	396	959	488
259	LOWE'S Hwy 268 East, North Wilkesboro, NC 28659/910-651-4000	169	322	431
345	LSI LOGIC 1551 McCarthy Blvd, Milpitas, CA 95035/408-433-8000	637	305	625
771	LTV 25 West Prospect Ave, Cleveland, OH 44115/216-622-5000	273	361	342
616	LUBRIZOL 29400 Lakeland Blvd, Wickliffe, OH 44092/216-943-4200	545	435	685
546	LYONDELL PETROCHEMICAL 1221 McKinney St, Houston, TX 77010/713-652-7200	250	192	506

M

Rank	Company	Sales	Profits	Assets
740	MACROMEDIA 600 Townsend St, San Francisco, CA 94103/415-252-2000	980	891	990
421	MALLINCKRODT GROUP 7733 Forsyth Blvd, St. Louis, MO 63105/314-854-5200	467	375	487
497	MANOR CARE 10750 Columbia Pike, Silver Spring, MD 20901/301-681-9400	599	572	665
508	MANPOWER 5301 North Ironwood Rd, Milwaukee, WI 53217/414-961-1000	221	493	676
694	MANVILLE 717 17th St, Denver, CO 80202/303-978-2000	404	432	408
680	MAPCO 1800 South Baltimore Ave, Tulsa, OK 74119/918-581-1800	343	688	561
844	MARK IV INDUSTRIES 501 John James Audubon Pkwy, Amherst, NY 14228/716-689-4972	488	624	606
208	MARRIOTT INTERNATIONAL 10400 Fernwood Rd, Bethesda, MD 20817/301-380-3000	133	295	409
178	MARSH & McLENNAN 1166 Ave of the Americas, New York, NY 10036/212-345-5000	300	185	395
506	MARSHALL & ILSLEY 770 North Water St, Milwaukee, WI 53202/414-765-7700	705	370	1
925	MARTIN MARIETTA MATERIALS 2710 Wycliff Rd, Raleigh, NC 27607/919-781-4550	805	714	8
863	MARVEL ENTERTAINMENT 387 Park Ave South, New York, NY 10016/212-696-0808	770	864	7
285	MASCO 21001 Van Born Rd, Taylor, MI 48180/313-274-7400	386	354	3
174	MATTEL 333 Continental Blvd, El Segundo, CA 90245/310-252-2000	314	205	4
539	MAXIM INTEGRATED 120 San Gabriel Dr, Sunnyvale, CA 94086/408-737-7600	909	680	9
104	MAY DEPARTMENT STORES 611 Olive St, St. Louis, MO 63101/314-342-6300	102	112	2
561	MAYTAG 403 West Fourth St North, Newton, IA 50208/515-792-8000	375	940	5
377	MBIA 113 King St, Armonk, NY 10504/914-273-4545	877	269	2
202	MBNA 400 Christiana Rd, Newark, DE 19713/800-362-6255	426	209	1
906	McAFEE ASSOCIATES 2710 Walsh Ave, Santa Clara, CA 95051/408-988-3832	982	898	9
613	McCORMICK 18 Loveton Circle, Sparks, MD 21152/410-771-7301	515	587	6
918	McDERMOTT INTL. 1450 Poydras St, New Orleans, LA 70112/504-587-4411	351	915	3
26	McDONALD'S McDonald's Plaza, Oak Brook, IL 60521/708-575-3000	120	42	1
124	McDONNELL DOUGLAS J. S. McDonnell Blvd & Airport Rd, St. Louis, MO 63134/314-232-	68	986	2
299	McGRAW-HILL 1221 Ave of the Americas, New York, NY 10020/212-512-2000	383	320	4
56	MCI COMMUNICATIONS 1801 Pennsylvania Ave NW, Washington, DC 20006/202-872-16	59	136	1
507	McKESSON One Post St, San Francisco, CA 94104/415-983-8300	74	463	4
665	MCN 500 Griswold St, Detroit, MI 48226/313-256-5500	564	557	5
453	MEAD Courthouse Plaza NE, Dayton, OH 45463/513-495-6323	235	217	3
636	MEDAPHIS 2700 Cumberland Pkwy, Atlanta, GA 30339/770-319-3300	874	922	8
959	MEDIA GENERAL 333 East Grace St, Richmond, VA 23219/804-649-6000	792	772	7
655	MEDITRUST 197 First Ave, Needham Heights, MA 02194/617-433-6000	945	515	6
90	MEDTRONIC 7000 Central Ave NE, Minneapolis, MN 55432/612-574-4000	481	186	5
163	MELLON BANK Mellon Bank Center, Pittsburgh, PA 15258/412-234-5000	350	114	5
367	MELVILLE One Theall Rd, Rye, NY 10580/914-925-4000	121	990	3
744	MEMC ELECTRONIC MATERIALS 501 Pearl Dr, St. Peters, MO 63376/314-279-5500	730	630	75
485	MERCANTILE BANCORP. Mercantile Tower, St. Louis, MO 63166/314-425-2525	620	333	14
803	MERCANTILE BANKSHARES Two Hopkins Plaza, Baltimore, MD 21201/410-237-5900	855	577	30
597	MERCANTILE STORES 9450 Seward Rd, Fairfield, OH 45014/513-881-8000	382	506	58
6	MERCK One Merck Dr, White House Station, NJ 08889/908-423-1000	48	9	10
498	MERCURY FINANCE 40 Skokie Blvd, Northbrook, IL 60062/847-564-3720	922	567	66
843	MERCURY GENERAL 4484 Wilshire Blvd, Los Angeles, CA 90010/213-937-1060	800	620	75
839	MEREDITH 1716 Locust St, Des Moines, IA 50309/515-284-3000	729	806	84
358	MERIDIAN BANCORP 35 North Sixth St, Reading, PA 19601/610-655-2000	615	401	15
116	MERRILL LYNCH 250 Vesey St, New York, NY 10281/212-449-1000	31	58	
328	MFS COMMUNICATIONS 3555 Farnam St, Omaha, NE 68131/402-977-5300	837	980	62

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 146.

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
360	**IVAX** 8800 NW 36th St, Miami, FL 33178/305-592-2830	642	529	709

J

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
534	**JAMES RIVER** 120 Tredegar St, Richmond, VA 23219/804-644-5411	179	498	278
810	**JEFFERSON SMURFIT** 8182 Maryland Ave, St. Louis, MO 63105/314-746-1100	282	293	485
327	**JEFFERSON-PILOT** 100 North Greene St, Greensboro, NC 27401/910-691-3000	569	283	260
8	**JOHNSON & JOHNSON** One Johnson & Johnson Plaza, New Brunswick, NJ 08933/908-524-0400	38	18	127
408	**JOHNSON CONTROLS** 5757 North Green Bay Ave, Milwaukee, WI 53209/414-228-1200	139	352	363
898	**JONES APPAREL GROUP** 250 Rittenhouse Circle, Bristol, PA 19007/215-785-4000	764	733	928

K

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
724	**K-III COMMUNICATIONS** 745 Fifth Ave, New York, NY 10151/212-745-0100	680	966	617
900	**KAISER ALUMINUM** 5847 San Felipe, Houston, TX 77057/713-267-3777	464	748	490
691	**KANSAS CITY POWER** 1201 Walnut St, Kansas City, MO 64106/816-556-2200	731	507	480
606	**KANSAS CITY SOUTHERN** 114 West 11th St, Kansas City, MO 64105/816-556-0303	765	308	520
68	**KELLOGG** One Kellogg Square, Battle Creek, MI 49016/616-961-2000	172	152	390
892	**KELLY SERVICES** 999 West Big Beaver Rd, Troy, MI 48084/810-362-4444	416	709	859
400	**KERR-McGEE** 123 Robert S. Kerr Ave, Oklahoma City, OK 73102/405-270-1313	521	947	461
144	**KEYCORP** 127 Public Square, Cleveland, OH 44114/216-689-3000	207	89	34
99	**KIMBERLY-CLARK** 551 Phelps Dr, Irving, TX 75038/214-281-1200	72	845	277
703	**KING WORLD PRODUCTIONS** 1700 Broadway, New York, NY 10019/212-315-4000	836	474	844
838	**KLA INSTRUMENTS** 160 Rio Robles, San Jose, CA 95134/408-432-4200	844	575	875
380	**KMART** 3100 West Big Beaver Rd, Troy, MI 48084/810-643-1000	16	988	131
364	**KNIGHT-RIDDER** One Herald Plaza, Miami, FL 33132/305-376-3800	408	408	471
519	**KOHL'S** N54 W13600 Woodale Dr, Menomonee Falls, WI 53051/414-783-5800	523	725	793
689	**KOMAG** 275 South Hillview Dr, Milpitas, CA 95035/408-946-2300	862	555	860
284	**KROGER** 1014 Vine St, Cincinnati, OH 45202/513-762-4000	23	234	366
894	**KU ENERGY** One Quality St, Lexington, KY 40507/606-255-2100	797	668	651

L

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
741	**LA QUINTA INNS** 112 East Pecan St, San Antonio, TX 78205/210-302-6000	890	783	795
985	**LABORATORY CORP.** 4225 Executive Square, La Jolla, CA 92037/619-550-0600	601	932	629
800	**LAFARGE** [illegible]	591	483	646
946	**LAM RESEARCH** 4650 Cushing Pkwy, Fremont, CA 94538/510-659-0200	687	520	833
864	**LANCASTER COLONY** 37 West Broad St, Columbus, OH 43215/614-224-7141	749	694	931
729	**LCI INTERNATIONAL** 8180 Greensboro Dr, McLean, VA 22102/703-442-0220	802	785	836
631	**LEAR SEATING** 21557 Telegraph Rd, Southfield, MI 48034/810-746-1500	261	604	467
936	**LEE ENTERPRISES** 215 North Main St, Davenport, IA 52801/319-383-2100	881	756	890
589	**LEGGETT & PLATT** One Leggett Rd, Carthage, MO 64836/417-358-8131	487	470	734
472	**LEHMAN BROTHERS** Three World Financial Center, New York, NY 10285/212-526-7000	368	301	18
682	**LEUCADIA NATIONAL** 315 Park Ave South, New York, NY 10010/212-460-1900	587	667	353
698	**LEXMARK INTL. GROUP** 55 Railroad Ave, Greenwich, CT 06836/203-629-6700	473	794	745
739	**LG&E ENERGY** 220 West Main St, Louisville, KY 40202/502-627-2000	608	625	519
31	**LILLY (ELI)** Lilly Corporate Center, Indianapolis, IN 46285/317-276-2000	182	46	162
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940	**LIN TELEVISION** Four Richmond Square, Providence, RI 02906/401-454-2880	941	832	869
228	**LINCOLN NATIONAL** 1300 South Clinton St, Fort Wayne, IN 46802/219-455-2000	185	153	36
352	**LINEAR TECHNOLOGY** 1630 McCarthy Blvd, Milpitas, CA 95035/408-432-1900	914	540	922
505	**LITTON INDUSTRIES** 21240 Burbank Blvd, Woodland Hills, CA 91367/818-598-5000	339	449	508
512	**LIZ CLAIBORNE** 1441 Broadway, New York, NY 10018/212-354-4900	484	496	710
80	**LOCKHEED MARTIN** 6801 Rockledge Dr, Bethesda, MD 20817/301-897-6000	25	115	128
635	**LOCTITE** Ten Columbus Blvd, Hartford, CT 06106/203-520-5000	761	647	854
122	**LOEWS** 667 Madison Ave, New York, NY 10021/212-545-2000	39	33	35
846	**LONE STAR STEAKHOUSE** 224 East Douglas, Wichita, KS 67202/316-264-8899	910	801	943
558	**LONG ISLAND LIGHTING** 175 East Old Country Rd, Hicksville, NY 11801/516-755-6650	367	241	181
152	**LORAL** 600 Third Ave, New York, NY 10016/212-697-1105	198	219	320
746	**LOUISIANA LAND** 909 Poydras St, New Orleans, LA 70112/504-566-6500	748	890	688
483	**LOUISIANA-PACIFIC** 111 SW Fifth Ave, Portland, OR 97204/503-221-0800	396	959	488
259	**LOWE'S** Hwy 268 East, North Wilkesboro, NC 28659/910-651-4000	169	322	431
345	**LSI LOGIC** 1551 McCarthy Blvd, Milpitas, CA 95035/408-433-8000	637	305	625
771	**LTV** 25 West Prospect Ave, Cleveland, OH 44115/216-622-5000	273	361	342
616	**LUBRIZOL** 29400 Lakeland Blvd, Wickliffe, OH 44092/216-943-4200	545	435	685
546	**LYONDELL PETROCHEMICAL** 1221 McKinney St, Houston, TX 77010/713-652-7200	250	192	506

M

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
740	**MACROMEDIA** 600 Townsend St, San Francisco, CA 94103/415-252-2000	980	891	990
421	**MALLINCKRODT GROUP** 7733 Forsyth Blvd, St. Louis, MO 63105/314-854-5200	467	375	487
497	**MANOR CARE** 10750 Columbia Pike, Silver Spring, MD 20901/301-681-9400	599	572	665
508	**MANPOWER** 5301 North Ironwood Rd, Milwaukee, WI 53217/414-961-1000	221	493	676
694	**MANVILLE** 717 17th St, Denver, CO 80202/303-978-2000	404	432	408
680	**MAPCO** 1800 South Baltimore Ave, Tulsa, OK 74119/918-581-1800	343	688	561
844	**MARK IV INDUSTRIES** 501 John James Audubon Pkwy, Amherst, NY 14228/716-689-4972	488	624	606
208	**MARRIOTT INTERNATIONAL** 10400 Fernwood Rd, Bethesda, MD 20817/301-380-3000	133	295	409
178	**MARSH & McLENNAN** 1166 Ave of the Americas, New York, NY 10036/212-345-5000	300	185	395
506	**MARSHALL & ILSLEY** 770 North Water St, Milwaukee, WI 53202/414-765-7700	705	370	1
925	**MARTIN MARIETTA MATERIALS** 2710 Wycliff Rd, Raleigh, NC 27607/919-781-4550	805	714	8
863	**MARVEL ENTERTAINMENT** 387 Park Ave South, New York, NY 10016/212-696-0808	770	864	7
285	**MASCO** 21001 Van Born Rd, Taylor, MI 48180/313-274-7400	386	354	3
174	**MATTEL** 333 Continental Blvd, El Segundo, CA 90245/310-252-2000	314	205	4
539	**MAXIM INTEGRATED** 120 San Gabriel Dr, Sunnyvale, CA 94086/408-737-7600	909	680	9
104	**MAY DEPARTMENT STORES** 611 Olive St, St. Louis, MO 63101/314-342-6300	102	112	2
561	**MAYTAG** 403 West Fourth St North, Newton, IA 50208/515-792-8000	375	940	5
377	**MBIA** 113 King St, Armonk, NY 10504/914-273-4545	877	269	2
202	**MBNA** 400 Christiana Rd, Newark, DE 19713/800-362-6255	426	209	1
906	**McAFEE ASSOCIATES** 2710 Walsh Ave, Santa Clara, CA 95051/408-988-3832	982	898	9
613	**McCORMICK** 18 Loveton Circle, Sparks, MD 21152/410-771-7301	515	587	6
918	**McDERMOTT INTL.** 1450 Poydras St, New Orleans, LA 70112/504-587-4411	351	915	3
26	**McDONALD'S** McDonald's Plaza, Oak Brook, IL 60521/708-575-3000	120	42	1
124	**McDONNELL DOUGLAS** J. S. McDonnell Blvd & Airport Rd, St. Louis, MO 63134/314-232-	68	986	2
299	**McGRAW-HILL** 1221 Ave of the Americas, New York, NY 10020/212-512-2000	383	320	4
56	**MCI COMMUNICATIONS** 1801 Pennsylvania Ave NW, Washington, DC 20006/202-872-16	59	136	1
507	**McKESSON** One Post St, San Francisco, CA 94104/415-983-8300	74	463	4
665	**MCN** 500 Griswold St, Detroit, MI 48226/313-256-5500	564	557	5
453	**MEAD** Courthouse Plaza NE, Dayton, OH 45463/513-495-6323	235	217	3
636	**MEDAPHIS** 2700 Cumberland Pkwy, Atlanta, GA 30339/770-319-3300	874	922	8
959	**MEDIA GENERAL** 333 East Grace St, Richmond, VA 23219/804-649-6000	792	772	7
655	**MEDITRUST** 197 First Ave, Needham Heights, MA 02194/617-433-6000	945	515	6
90	**MEDTRONIC** 7000 Central Ave NE, Minneapolis, MN 55432/612-574-4000	481	186	5
163	**MELLON BANK** Mellon Bank Center, Pittsburgh, PA 15258/412-234-5000	350	114	5
367	**MELVILLE** One Theall Rd, Rye, NY 10580/914-925-4000	121	990	3
744	**MEMC ELECTRONIC MATERIALS** 501 Pearl Dr, St. Peters, MO 63376/314-279-5500	730	630	75
485	**MERCANTILE BANCORP.** Mercantile Tower, St. Louis, MO 63166/314-425-2525	620	333	14
803	**MERCANTILE BANKSHARES** Two Hopkins Plaza, Baltimore, MD 21201/410-237-5900	855	577	30
597	**MERCANTILE STORES** 9450 Seward Rd, Fairfield, OH 45014/513-881-8000	382	506	58
6	**MERCK** One Merck Dr, White House Station, NJ 08889/908-423-1000	48	9	10
498	**MERCURY FINANCE** 40 Skokie Blvd, Northbrook, IL 60062/847-564-3720	922	567	66
843	**MERCURY GENERAL** 4484 Wilshire Blvd, Los Angeles, CA 90010/213-937-1060	800	620	75
839	**MEREDITH** 1716 Locust St, Des Moines, IA 50309/515-284-3000	729	806	84
358	**MERIDIAN BANCORP** 35 North Sixth St, Reading, PA 19601/610-655-2000	615	401	15
116	**MERRILL LYNCH** 250 Vesey St, New York, NY 10281/212-449-1000	31	58	
328	**MFS COMMUNICATIONS** 3555 Farnam St, Omaha, NE 68131/402-977-5300	837	980	62

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MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
354	**MGIC INVESTMENT** 250 East Kilbourn Ave, Milwaukee, WI [illegible]	823	347	619
670	**MGM GRAND** 3799 Las Vegas Blvd South, Las Vegas, NV [illegible] 891 3333	784	802	729
742	**MICRO WAREHOUSE** 535 Connecticut Ave, Norwalk, CT 06854/203-899-4000	629	809	944
994	**MICROCHIP TECHNOLOGY** 2355 West Chandler Blvd, Chandler, AZ 85224/602-786-7200	928	821	959
953	**MICRON ELECTRONICS** 900 East Karcher Rd, Nampa, ID 83687/208-893-3434	630	706	921
189	**MICRON TECHNOLOGY** 8000 South Federal Way, Boise, ID 83707/208-368-4000	319	68	436
9	**MICROSOFT** One Microsoft Way, Redmond, WA 98052/206-882-8080	160	29	241
961	**MID ATLANTIC MEDICAL** Four Taft Court, Rockville, MD 20850/301-294-5140	710	745	945
620	**MIDAMERICAN ENERGY** 666 Grand Ave, Des Moines, IA 50306/515-242-4300	572	480	388
587	**MILLIPORE** 80 Ashby Rd, Bedford, MA 01730/617-275-9200	832	639	905
39	**MINNESOTA MINING & MFG.** 3M Center, St. Paul, MN 55144/612-733-1110	76	47	163
307	**MIRAGE RESORTS** 3400 Las Vegas Blvd South, Las Vegas, NV 89109/702-791-7111	625	400	634
16	**MOBIL** 3225 Gallows Rd, Fairfax, VA 22037/703-846-3000	6	19	54
873	**MOBILEMEDIA** 65 Challenger Rd, Ridgefield Park, NJ 07660/201-440-8400	934	954	744
346	**MOLEX** 2222 Wellington Court, Lisle, IL 60532/708-969-4550	622	461	703
875	**MONEY STORE (THE)** 2840 Morris Ave, Union, NJ 07083/908-686-2000	863	790	635
73	**MONSANTO** 800 North Lindbergh Blvd, St. Louis, MO 63167/314-694-1000	132	100	214
854	**MONTANA POWER** 40 East Broadway, Butte, MT 59701/406-723-5421	712	758	509
78	**MORGAN (J. P.)** 60 Wall St, New York, NY 10260/212-483-2323	71	48	9
172	**MORGAN STANLEY GROUP** 1585 Broadway, New York, NY 10036/212-761-4000	NR	NR	12
234	**MORTON INTERNATIONAL** 100 North Riverside Plaza, Chicago, IL 60606/312-807-2000	331	228	483
34	**MOTOROLA** 1303 East Algonquin Rd, Schaumburg, IL 60196/847-576-5000	21	32	97
609	**MURPHY OIL** 200 Peach St, El Dorado, AR 71731/501-862-6411	538	973	545
509	**MYLAN LABORATORIES** 130 Seventh St, Pittsburgh, PA 15222/412-232-0100	892	524	878

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MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
134	**NABISCO HOLDINGS** Seven Campus Dr, Parsippany, NJ 07054/201-682-5000	146	237	197
896	**NABORS INDUSTRIES** [illegible] Rd, Houston, TX 77067/713-874-0035	827	761	882
554	**NALCO CHEMICAL** One Nalco Center, Naperville, IL 60563/708-305-1000	651	469	707
257	**NATIONAL CITY** 1900 East Ninth St, Cleveland, OH 44114/216-575-2000	399	162	60
842	**NATIONAL FUEL GAS** Ten Lafayette Square, Buffalo, NY 14203/716-857-7000	694	672	539
600	**NATIONAL SEMICONDUCTOR** 2900 Semiconductor Dr, Santa Clara, CA 95052/408-721-5000	418	249	505
659	**NATIONAL SERVICE INDS.** 1420 Peachtree St NE, Atlanta, GA 30309/404-853-1000	497	593	746
54	**NATIONSBANK** [illegible] 386-5660	55	23	7
601	**NELLCOR PURITAN BENNETT** 4280 Hacienda Dr, Pleasanton, CA 94588/510-463-4000	876	942	902
323	**NETSCAPE COMMUNS.** 501 East Middlefield Rd, Mountain View, CA 94043/415-254-1900	983	931	973
942	**NEVADA POWER** 6226 West Sahara Ave, Las Vegas, NV [illegible]-367-5000	773	674	596
479	**NEW ENGLAND ELECTRIC** 25 Research Dr, Westborough, MA 01582/508-389-2000	457	339	351
853	**NEW PLAN REALTY TRUST** 1120 Ave of the Americas, New York, NY 10036/212-869-3000	967	732	829
790	**NEW WORLD COMMUNS.** 3200 Windy Hill Rd, Atlanta, GA 30339/770-955-0045	830	951	555
658	**NEW YORK STATE E&G** 4500 Vestal Pkwy East, Binghamton, NY 13902/607-762-7200	490	358	357
467	**NEW YORK TIMES** 229 West 43rd St, New York, NY 10036/212-556-1234	442	466	448
295	**NEWELL** 29 East Stephenson St, Freeport, IL 61032/815-235-4171	430	326	474
238	**NEWMONT GOLD** 1700 Lincoln St, Denver, CO 80203/303-863-7414	816	501	636
263	**NEWMONT MINING** 1700 Lincoln St, Denver, CO 80203/303-863-7414	815	539	637
419	**NEXTEL COMMUNICATIONS** 201 Route 17 North, Rutherford, NJ 07070/201-438-1400	954	979	339
851	**NGC** 13430 Northwest Freeway, Houston, TX 77040/713-507-6400	312	609	655
902	**NIAGARA MOHAWK POWER** 300 Erie Blvd West, Syracuse, NY 13202/315-474-1511	289	292	237
770	**NICOR** 1844 Ferry Rd, Naperville, IL 60563/708-305-9500	588	581	556
133	**NIKE** One Bowerman Dr, Beaverton, OR 97005/503-671-6453	218	151	442
755	**NINE WEST GROUP** Nine West Broad St, Stamford, CT 06902/203-324-7567	NR	NR	742
501	**NIPSCO INDUSTRIES** 5265 Hohman Ave, Hammond, IN 46320/219-853-5200	535	373	412
713	**NOBLE AFFILIATES** 110 West Broadway, Ardmore, OK 73401/405-223-4110	870	918	777
882	**NORAM ENERGY** 1600 Smith, Houston, TX 77002/713-654-5100	380	723	434
944	**NORDSON** 28601 Clemens Rd, Westlake, OH 44145/216-892-1580	835	773	926
340	**NORDSTROM** 1501 Fifth Ave, Seattle, WA 98101/206-628-2111	284	381	478
113	**NORFOLK SOUTHERN** Three Commercial Place, Norfolk, VA 23510/804-629-2600	264	110	206
434	**NORTHEAST UTILITIES** 107 Selden St, Berlin, CT 06037/413-785-5871	302	231	216
366	**NORTHERN STATES POWER** 414 Nicollet Mall, Minneapolis, MN 55401/612-330-5500	422	265	307
415	**NORTHERN TRUST** 50 South La Salle St, Chicago, IL 60675/312-630-6000	525	329	112
396	**NORTHROP GRUMMAN** 1840 Century Park East, Los Angeles, CA 90067/310-553-6262	177	288	340
314	**NORTHWEST AIRLINES** 5101 Northwest Dr, St. Paul, MN 55111/612-726-2111	129	218	246
94	**NORWEST** Sixth St & Marquette Ave, Minneapolis, MN 55479/612-667-1234	159	71	32
287	**NOVELL** 1555 North Technology Way, Orem, UT 84057/801-429-7000	495	233	538
272	**NUCOR** 2100 Rexford Rd, Charlotte, NC 28211/704-366-7000	333	266	560
47	**NYNEX** 1095 Ave of the Americas, New York, NY 10036/212-395-1000	80	61	83

O

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
962	**OAK TECHNOLOGY** 139 Kifer Court, Sunnyvale, CA 94086/408-737-0888	944	804	963
831	**OAKLEY** Ten Holland Dr, Irvine, CA 92718/714-951-0991	955	829	996
958	**OAKWOOD HOMES** 7025 Albert Pick Rd, Greensboro, NC 27417/910-664-2400	737	780	848
171	**OCCIDENTAL PETROLEUM** 10889 Wilshire Blvd, Los Angeles, CA 90024/310-208-8800	107	147	125
972	**OCTEL COMMUNICATIONS** 1001 Murphy Ranch Rd, Milpitas, CA 95035/408-321-2000	866	837	935
376	**OFFICE DEPOT** 2200 Old Germantown Rd, Delray Beach, FL 33445/407-278-4800	227	475	514
640	**OFFICEMAX** 3605 Warrensville Center Rd, Shaker Heights, OH 44122/216-921	427	NR	6
920	**OGDEN** Two Pennsylvania Plaza, New York, NY 10121/212-868-6000	470	911	4
778	**OHIO CASUALTY** 136 North Third St, Hamilton, OH 45025/513-867-3000	593	599	4
342	**OHIO EDISON** 76 South Main St, Akron, OH 44308/216-384-5151	435	230	2
664	**OKLAHOMA G&E** 101 North Robinson, Oklahoma City, OK 73102/405-553-3000	631	499	4
623	**OLD KENT FINANCIAL** One Vandenberg Center, Grand Rapids, MI 49503/616-771-500	671	456	1
633	**OLD REPUBLIC INTL.** 307 North Michigan Ave, Chicago, IL 60601/312-346-8100	541	340	2
569	**OLIN** 501 Merritt Seven, Norwalk, CT 06851/203-750-3000	361	459	5
588	**OLSTEN** 175 Broad Hollow Rd, Melville, NY 11747/516-844-7800	428	619	8
808	**OMNICARE** 255 East Fifth St, Cincinnati, OH 45202/513-762-6666	895	873	9
391	**OMNICOM GROUP** 437 Madison Ave, New York, NY 10022/212-415-3600	459	458	4
857	**OMNIPOINT** 2000 North 14th St, Arlington, VA 22201/703-522-7778	NR	NR	9
45	**ORACLE** 500 Oracle Pkwy, Redwood Shores, CA 94065/415-506-7000	330	157	5
727	**ORNDA HEALTHCORP** 3401 West End Ave, Nashville, TN 37203/615-383-8599	505	671	5
767	**ORYX ENERGY** 13155 Noel Rd, Dallas, TX 75240/214-715-4000	666	421	6
688	**OUTBACK STEAKHOUSE** 550 North Reo St, Tampa, FL 33609/813-282-1225	807	769	9
564	**OWENS CORNING** Fiberglas Tower, Toledo, OH 43659/419-248-8000	317	316	4
595	**OWENS-ILLINOIS** One Seagate, Toledo, OH 43666/419-247-5000	301	404	3
433	**OXFORD HEALTH PLANS** 800 Connecticut Ave, Norwalk, CT 06854/203-852-1442	529	779	8

P

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
617	**PACCAR** 777 106th Ave NE, Bellevue, WA 98004/206-455-7400	256	287	3
523	**PACIFIC ENTERPRISES** 555 West Fifth St, Los Angeles, CA 90013/213-895-5000	451	357	3
111	**PACIFIC GAS & ELECTRIC** 77 Beale St, San Francisco, CA 94105/415-973-7000	123	45	
101	**PACIFIC TELESIS GROUP** 130 Kearny St, San Francisco, CA 94108/415-394-3000	130	64	1
420	**PACIFICARE HEALTH** 5995 Plaza Dr, Cypress, CA 90630/714-952-1121	286	526	6
223	**PACIFICORP** 700 NE Multnomah, Portland, OR 97232/503-731-2000	340	150	1
448	**PAGING NETWORK** 4965 Preston Park Blvd, Plano, TX 75093/214-985-4100	851	957	7
591	**PAINEWEBBER GROUP** 1285 Ave of the Americas, New York, NY 10019/212-713-2000	226	655	
387	**PALL** 2200 Northern Blvd, East Hills, NY 11548/516-484-5400	726	485	7
401	**PANAMSAT** One Pickwick Place, Greenwich, CT 06830/203-622-6664	975	894	6
302	**PANENERGY** 5400 Westheimer Ct, Houston, TX 77056/713-627-5400	248	240	2
502	**PARAMETRIC TECHNOLOGY** 128 Technology Dr, Waltham, MA 02154/617-398-5000	884	616	9
471	**PARKER HANNIFIN** 17325 Euclid Ave, Cleveland, OH 44112/216-531-3000	338	303	5
923	**PAUL REVERE** 18 Chestnut St, Worcester, MA 01608/508-799-4441	575	640	2
477	**PAYCHEX** 911 Panorama Trail South, Rochester, NY 14625/716-385-6666	924	810	9
205	**PECO ENERGY** 2301 Market St, Philadelphia, PA 19101/215-841-4000	277	119	1

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THE BUSINESS WEEK 1000

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MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
112	**PENNEY (J. C.)** 6501 Legacy Dr, Plano, TX 75024/214-431-1000	30	82	130
637	**PENNZOIL** 700 Milam St, Houston, TX 77002/713-546-4000	432	982	399
967	**PENTAIR** 1500 County Rd B2 West, St. Paul, MN 55113/612-636-7920	609	747	728
901	**PEOPLES ENERGY** 130 East Randolph Dr, Chicago, IL 60601/312-240-4000	681	693	628
458	**PEOPLESOFT** 4440 Rosewood Dr, Pleasanton, CA 94588/510-225-3000	937	857	972
629	**PEP BOYS** 3111 West Allegheny Ave, Philadelphia, PA 19132/215-229-9000	580	652	702
12	**PEPSICO** 700 Anderson Hill Rd, Purchase, NY 10577/914-253-2000	18	37	85
590	**PERKIN-ELMER** 761 Main Ave, Norwalk, CT 06859/203-762-1000	669	685	797
913	**PERRIGO** 515 Eastern Ave, Allegan, MI 49010/616-673-8451	766	820	884
642	**PETSMART** 10000 North 31st Ave, Phoenix, AZ 85051/602-944-7070	685	928	911
20	**PFIZER** 235 East 42nd St, New York, NY 10017/212-573-2323	116	40	183
49	**PHARMACIA & UPJOHN** 7000 Portage Rd, Kalamazoo, MI 49001/616-323-4000	168	101	202
308	**PHELPS DODGE** 2600 North Central Ave, Phoenix, AZ 85004/602-234-8100	278	97	379
5	**PHILIP MORRIS** 120 Park Ave, New York, NY 10017/212-880-5000	10	4	40
138	**PHILLIPS PETROLEUM** Fourth & Keeler Sts, Bartlesville, OK 74004/918-661-6600	82	161	194
672	**PHYCOR** 30 Burton Hills Blvd, Nashville, TN 37215/615-665-9066	885	879	870
870	**PICTURETEL** 222 Rosewood Dr, Danvers, MA 01923/508-762-5000	908	889	965
486	**PINNACLE WEST CAPITAL** 400 East Van Buren St, Phoenix, AZ 85004/602-379-2500	543	330	288
289	**PIONEER HI-BRED INTL.** 400 Locust St, Des Moines, IA 50309/515-248-4800	571	377	682
175	**PITNEY BOWES** One Elmcroft Rd, Stamford, CT 06926/203-356-5000	324	184	264
975	**PITTSTON BRINK'S GROUP** 100 First Stamford Place, Stamford, CT 06912/203-978-5200	760	784	919
988	**PITTWAY** 200 South Wacker Dr, Chicago, IL 60606/312-831-1070	716	823	864
999	**PIXAR** 1001 West Cutting Blvd, Richmond, CA 94804/510-236-4000	988	923	986
679	**PMI GROUP** 601 Montgomery St, San Francisco, CA 94111/415-788-7878	898	494	719
115	**PNC BANK** Fifth Ave & Wood St, Pittsburgh, PA 15265/412-762-2000	195	183	31
885	**POGO PRODUCING** Five Greenway Plaza, Houston, TX 77046/713-297-5000	961	907	948
578	**POLAROID** 549 Technology Square, Cambridge, MA 02139/617-386-2000	465	975	550
955	**POLICY MGMT. SYSTEMS** I-77 & U.S. 21 North, Blythewood, SC 29016/803-735-4000	854	920	891
696	**PORTLAND GENERAL** 121 SW Salmon St, Portland, OR 97204/503-464-8820	703	617	440
852	**POTLATCH** [illegible] San Francisco, CA 94111/415-576-8800	559	550	554
389	**POTOMAC ELECTRIC POWER** 1900 Pennsylvania Ave NW, Washington, DC 20068/202-872-2000	511	603	285
326	**PP&L RESOURCES** Two North Ninth St, Allentown, PA 18101/610-774-5151	409	212	236
143	**PPG INDUSTRIES** One PPG Place, Pittsburgh, PA 15272/412-434-3131	170	94	310
264	**PRAXAIR** 39 Old Ridgebury Rd, Danbury, CT 06810/203-837-2000	362	277	404
381	**PREMARK INTERNATIONAL** 1717 Deerfield Rd, Deerfield, IL 60015/847-405-6000	322	282	525
463	**PREMIER INDUSTRIAL** 4500 Euclid Ave, Cleveland, OH 44103/216-391-8300	741	538	897
712	**PRESSTEK** Eight Commercial St, Hudson, NH 03051/603-595-7000	985	921	1000
710	**PRICE (T. ROWE)** 100 East Pratt St, Baltimore, MD 21202/410-547-2000	886	676	942
363	**PRICE/COSTCO** 999 Lake Dr, Issaquah, WA 98027/206-803-8100	40	332	362
10	**PROCTER & GAMBLE** One Procter & Gamble Plaza, Cincinnati, OH 45202/513-983-1100	15	12	78
370	**PROGRESSIVE** 6300 Wilson Mills Rd, Mayfield Village, OH 44143/216-461-5000	378	289	343
772	**PROMUS HOTEL** 785 Crossover Lane, Memphis, TN 38117/901-680-7200	936	814	908
945	**PROTECTIVE LIFE** 2801 Hwy 280 South, Birmingham, AL 35223/205-879-9230	728	675	281
708	**PROVIDENT** One Fountain Square, Chattanooga, TN 37402/423-755-1011	425	528	139
300	**PROVIDIAN** 400 West Market St, Louisville, KY 40202/502-560-2000	341	216	80
821	**PRUDENTIAL REINSURANCE** 100 Mulberry St, Newark, NJ 07102/201-802-6000	714	926	376
533	**PS OF COLORADO** 1225 17th St, Denver, CO 80202/303-571-7511	477	386	397
180	**PUBLIC SERVICE ENT.** 80 Park Plaza, Newark, NJ 07101/201-430-7000	199	111	134
683	**PUGET SOUND POWER** 411 108th Ave NE, Bellevue, WA 98004/206-454-6363	658	467	452

Q

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
282	**QUAKER OATS** 321 North Clark St, Chicago, IL 60610/312-222-7111	202	107	368
473	**QUALCOMM** 6455 Lusk Blvd, San Diego, CA 92121/619-587-1121	879	842	785
796	**QUESTAR** 180 East First St South, Salt Lake City, UT 84111/801-534-5000	809	648	672
802	**QUINTILES TRANSNATIONAL** 1007 Slater Rd, Durham, NC 27703/919-941-2888	962	905	975
859	**QUORUM HEALTH GROUP** 105 Continental Place, Brentwood, TN 37027/615-371-7979	702	742	782

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MKT RANK	COMPANY	SALES	PROFITS	ASSETS
182	**RALSTON PURINA** 901 Chouteau Ave, St. Louis, MO 63102/314-982-1000	175	226	370
427	**RAYCHEM** 300 Constitution Dr, Menlo Park, CA 94025/415-361-3333	560	726	690
941	**RAYONIER** 1177 Summer St, Stamford, CT 06905/203-348-7000	640	453	661
100	**RAYTHEON** 141 Spring St, Lexington, MA 02173/617-862-6600	97	87	279
251	**READER'S DIGEST** Reader's Digest Rd, Pleasantville, NY 10570/914-238-1000	360	302	578
860	**READING & BATES** 901 Threadneedle, Houston, TX 77079/713-496-5000	943	892	880
583	**REEBOK INTERNATIONAL** 100 Technology Center Dr, Stoughton, MA 02072/617-341-5000	329	414	654
560	**REGIONS FINANCIAL** 417 North 20th St, Birmingham, AL 35203/205-326-7100	670	392	170
646	**RELIASTAR FINANCIAL** 20 Washington Ave South, Minneapolis, MN 55401/612-372-5432	480	403	145
532	**REPUBLIC INDUSTRIES** 200 East Las Olas Blvd, Ft. Lauderdale, FL 33301/305-627-6000	932	875	929
362	**REPUBLIC NEW YORK** 452 Fifth Ave, New York, NY 10018/212-525-5000	391	251	52
610	**REVCO D. S.** 1925 Enterprise Pkwy, Twinsburg, OH 44087/216-425-9811	251	704	547
754	**REVLON** 625 Madison Ave, New York, NY 10022/212-527-4000	500	955	679
695	**REYNOLDS & REYNOLDS** 115 South Ludlow St, Dayton, OH 45402/513-443-2000	717	653	835
373	**REYNOLDS METALS** 6601 West Broad St, Richmond, VA 23230/804-281-2000	164	191	267
146	**RHONE-POULENC RORER** 500 Arcola Rd, Collegeville, PA 19426/610-454-8000	239	206	356
464	**RITE AID** 30 Hunter Lane, Camp Hill, PA 17011/717-761-2633	224	431	489
784	**RIVERWOOD INTL.** 3350 Cumberland Circle, Atlanta, GA 30339/770-644-3000	618	808	5
139	**RJR NABISCO HOLDINGS** 1301 Ave of the Americas, New York, NY 10019/212-258-5600	54	121	
847	**ROBERT HALF INTL.** 2884 Sand Hill Rd, Menlo Park, CA 94025/415-854-9700	821	824	9
98	**ROCKWELL INTERNATIONAL** 2201 Seal Beach Blvd, Seal Beach, CA 90740/310-797-3311	79	93	1
276	**ROHM & HAAS** 100 Independence Mall West, Philadelphia, PA 19106/215-592	293	248	4
978	**ROUSE** 10275 Little Patuxent Pkwy, Columbia, MD 21044/410-992-600	803	914	4
726	**ROYAL CARIBBEAN CRUISES** 1050 Caribbean Way, Miami, FL 33132/305-539-6000	656	439	5
886	**RPM** 2628 Pearl Rd, Medina, OH 44258/216-273-5090	677	735	7
297	**RUBBERMAID** 1147 Akron Rd, Wooster, OH 44691/216-264-6464	450	751	6
899	**RUSSELL** 755 Lee St, Alexander City, AL 35010/205-329-4000	662	766	7
580	**RYDER SYSTEM** 3600 NW 82nd Ave, Miami, FL 33166/305-593-3726	237	430	3

S

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
286	**SAFECO** 433 Brooklyn Ave NE, Seattle, WA 98185/206-545-5000	295	188	1
200	**SAFEWAY** 201 Fourth St, Oakland, CA 94660/510-891-3000	51	225	3
266	**SALLIE MAE** 1050 Thomas Jefferson St NW, Washington, DC 20007/202-333	290	203	
318	**SALOMON** Seven World Trade Center, New York, NY 10048/212-783-7000	134	164	
565	**SANTA FE PACIFIC GOLD** 6200 Uptown Blvd NE, Albuquerque, NM 87110/505-880-5300	907	827	7
72	**SARA LEE** Three First National Plaza, Chicago, IL 60602/312-726-2600	41	81	1
30	**SBC COMMUNICATIONS** 175 East Houston, San Antonio, TX 78205/210-821-4105	88	26	1
432	**SCANA** 1426 Main St, Columbia, SC 29201/803-748-3000	616	390	3
933	**SCHERER (R. P.)** 2075 West Big Beaver Rd, Troy, MI 48084/810-649-0900	843	795	8
53	**SCHERING-PLOUGH** One Giralda Farms, Madison, NJ 07940/201-822-7000	240	63	3
59	**SCHLUMBERGER** 277 Park Ave, New York, NY 10172/212-350-9400	153	117	2
888	**SCHOLASTIC** 555 Broadway, New York, NY 10012/212-343-6100	746	815	8
293	**SCHWAB (CHARLES)** 101 Montgomery St, San Francisco, CA 94104/415-627-7000	606	394	2
893	**SCI SYSTEMS** 2101 West Clinton Ave, Huntsville, AL 35805/302-998-0592	327	740	7
788	**SCIENTIFIC-ATLANTA** One Technology Pkwy South, Norcross, GA 30092/770-903-5000	664	799	8
365	**SCRIPPS (E. W.)** 1105 North Market St, Wilmington, DE 19801/302-478-4141	686	606	6
191	**SEAGATE TECHNOLOGY** 920 Disc Dr, Scotts Valley, CA 95066/408-438-6550	220	189	4
820	**SEALED AIR** Park 80 East, Saddle Brook, NJ 07663/201-791-7600	783	775	9
60	**SEARS, ROEBUCK** 3333 Beverly Rd, Hoffman Estates, IL 60179/847-286-2500	14	66	
732	**SECURITY CAPITAL INDL.** 14100 East 35th Place, Aurora, CO 80011/303-375-9292	960	791	6
699	**SECURITY CAPITAL PACIFIC** 7777 Market Center Ave, El Paso, TX 79912/915-877-3900	930	646	6
717	**SENSORMATIC ELECTRONICS** 951 Yamato Rd, Boca Raton, FL 33431/407-989-7000	699	946	6
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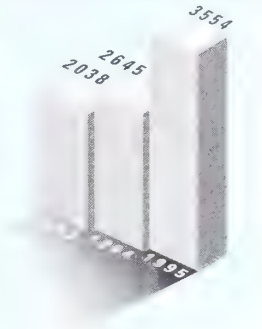
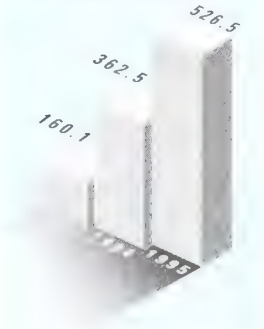
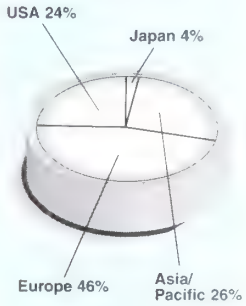
Net Revenues: Millions of Dollars



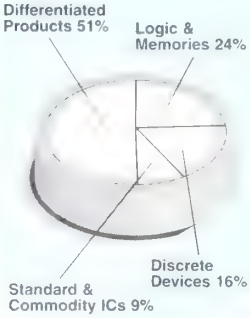
Net Earnings: Millions of Dollars



1995 Sales By Region



1995 Sales By Product Group



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ROOM AT THE TABLE: *New franchi Davis has doubled black business*

CORPORATE CULTURE

A NEW DENNY'S—DINER BY DINER

A sweeping overhaul chips away at the company's racist past

When Charles E. Davis bought a Denny's Inc. restaurant in Syracuse, N.Y., last year, he knew many blacks wouldn't readily stroll through the door. Denny's, everyone assumed, was racist. So Davis traveled the city's bars and churches and got a well-connected black public-relations man to introduce him to local Urban League and NAACP officials. He bought airtime on black radio stations, set up a youth mentoring program, and ran ads in fraternity and [illegible] publications—and black business has more than doubled. "Every opportunity I got, I was telling people that Denny's was in town with a new attitude," he says.

That's for sure. Just two years ago, Denny's Inc. still was a snow-white export of the Old South. Some managers routinely barred black customers; others required African Americans to prepay dinner bills. Just one of the chain's 512 franchises was minority-owned. Denny's money-losing parent, Flagstar Cos., paid $54 million in 1994 to settle two civil rights class actions.

But a sweeping cultural overhau transformed the restaurant comp Senior management no longer is th clusive preserve of white men. S managers' pay is linked to diver goals, and African Americans ow franchises. Flagstar Chairman and James B. Adamson has consolidate thority for restaurant operations, ting strict rules and sending a warning to employees and franch alike: "If you discriminate," he "you're history."

NO TIME TO WASTE. It's a blunt date, and not everyone has bought former Denny's manager says whites resented mandatory dive training and felt they had to "bite tongues" when black customers cha them with discrimination. Eigh Flagstar's 12 top executives—all males—have left the company. Adamson's management committe cludes a Hispanic American male, white women, and a black woman newly created position responsibl diversity initiatives.

Adamson, the widely respected mer Burger King Corp. CEO wh rived at Flagstar early last year, set the tone. He recently fired off ter to the local *Greenville News* pro ing its use of a stereotypical illu tion of a black waitress. On empl resistance: "Some people just ain't able, they won't get it, and I don't time to waste on them." On Flags landmark 1993 deal with the NAACP laid out hiring and purchasing goal former management thought they signing a solution, that's idiotic."

The NAACP pact simply was too a start, Adamson says. change, rather, required gritty reengineering of ny's kitchens and coun With little centralized agement, managers of De 933 company-owned res rants historically had things their own way. Th sult: both blatant and c racism. The "black-outs" prepay requirements, the pany says, represented agers' attempts to stem l from customers who left restaurants without payi

Did headquarters encou such practices? Flagstar not. Its solution, though, ly is aimed at educating restaurant managers and

DENNY'S REPORT CARD

An assessment of progress in rooting out racism at the restaurant chain and its parent, Flagstar Cos.

CULTURE A Huge changes. Evidence of bigotry brings termination; a monitor tracks civil rights charges; a complaint number is posted in restaurants.

CONTRACTING A- Minority suppliers will get $50 million of business this year, 12% of total. Some outsiders say the company could be more responsive.

FRANCHISING B- Three years ago, there was one minority Denny's franchisee. Now, 27 of the chain's 600 franchised restaurants are black-owned. But the number is far higher at McDonald's and Burger King.

MANAGEMENT C Anything would have been an improvement. Minorities account for two directors and two senior execs—but just 5% of managing partners are black.

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Flagstar supervisors. Adamson replaced regional and district managers with one layer of 300 managing partners overseeing company-owned units and 22 franchise managers. Representatives meet quarterly with Denny's President C. Ronald Petty to discuss operations and strategy; this spring, Petty will start hourlong weekly satellite broadcasts to all managers. Franchisees get monthly memos on corporate policies. And 12.5% of managers' bonuses is tied to diversity hiring and promotions.

WEAK SPOTS. At the home office, African Americans now account for 17% of Flagstar's managers, and minority purchasing contracts exceed $50 million, four years ahead of the NAACP goal. Whether such changes attract black diners is unclear, since Flagstar only recently began tracking demographic trends. But Denny's 1995 same-store sales were up 0.9%, while its peers struggled.

Denny's cultural reformation has weak spots. Of its new managing partners, only 5% are black. Some restaurant owners argue that targeted marketing funds—such as $500,000 spent to sponsor *Soul Train*'s 25th-anniversary TV special—could be better used to help finance more minority franchises, whose numbers still lag those of rival chains. And Ronald McPherson, president of the Santa Clara County Black Chamber of Commerce, says he hasn't heard from Flagstar eight months after he inquired on behalf of members interested in becoming suppliers. "Given their history, you would think they would get back to me right away," he says.

Given Denny's past, indeed, every transaction can come under scrutiny. Miles Holland, a black franchisee in southern California, hosts black fraternity meetings at his restaurants. But the resulting goodwill didn't stop a black customer from crying discrimination when a cashier marked his $100 bill to be checked for counterfeiting—but not a white patron's $20 bill. The cashier calmly explained the policy to mark only large bills. "Now, once a question is raised, we have to answer it politely, calmly, not defensively," Holland says. "If not, you're skating on thin ice."

Slowly, diner by diner, Denny's is breaking down its racist reputation. Certainly, "mere exhortations and structural changes will not generate attitude changes," observes Hayagreeva Rao, associate professor at Emory University. Adamson knows a transformation won't come overnight. But he won't tolerate any vestige of the old status quo, either. How to end racism? "You hit people in the face, and then it becomes natural," he says. Or you fire them.

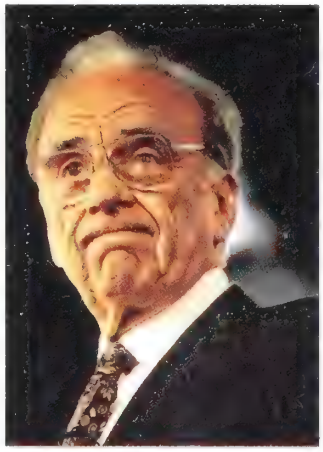
By Nicole Harris in Spartanburg, S. C.

DEALS

CAN RUPERT CONQUER EUROPE?

A new deal gives him a piece of the prize market, Germa

Over grilled salmon at London's Ritz Hotel, Rupert Murdoch had just clinched another megadeal, and now he needed to clear his head. He strolled awhile in nearby Green Park, musing about how this latest coup was especially fulfilling. The negotiations to launch a digital pay-TV service in Germany took just 19 days from start to finish. The joint-venture agreement—between his British Sky Broadcasting company, Germany's Bertelsmann, and France's Canal Plus and Havas—was only five pages long. And his new partners were the kind of people he admired. But he still had one more deal to cut that Saturday. He walked into the Turnbull & Asser clothing store on Jermyn St. and asked if there were any overcoats on sale. The answer was no.



MURDOCH: *His pact locks three rivals into an alliance*

Rupert Murdoch doesn't always get what he wants. But he almost always gets what he needs. this case, what the ch man of News Co needed was a platfo for launching a ropewide digital TV s vice that will use r satellite technology beam down hundreds channels to millions viewers. The media coon's swift deal on M 6 got him his foothold locking three poten competitors into an liance to launch dig TV in Germany, the C tinent's richest me market.

MACHIAVELLI? Murd hasn't won yet, and he has alre stepped on some toes. After being pas over as potential partners, executive Luxembourg-based CLT now liken M doch to Machiavelli. Another disgrun player—Bavarian media mogul Kirch—may try to block the gutsy A tralian and launch a rival service. T two powerful media groups could vie dominance of Europe's 160 million

BERLUSCONI'S STRATEGIC RETREAT

Silvio Berlusconi has long enjoyed a hammerlock on commercial television in Italy, first through Fininvest, his sprawling holding company, and since late 1994 through Mediaset, a spin-off from Fininvest that manages just the media interests of Berlusconi. But now, the tycoon, who no longer runs Mediaset day to day, is ready to weaken his hold on his creation. A public stock offering on the Milan Stock Exchange planned for June wil Berlusconi's stake in Mediaset 74% to less than 50% and raise mated $1.2 billion for the comp

Berlusconi is cutting back for reasons. With national elections on Apr. 21, the 59-year-old Berl hungers for a second stint as Pr Minister. Watering down his me ings could counter the conflict-o est charges that plagued his pre ship in 1994. Much more import Mediaset's need for funds to bec core commercial-TV business, wh jor changes are afoot.

SOCCER RIVAL. Suddenly, Berlus empire is not the secure fief tha was. New antitrust regulations could force the divestiture of on

eholds. "This pret-
nuch realigns the
es for the new dig-
age," says Adam
inger, president of
-Communications
rnational Inc., a
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ons Inc.

urdoch has some
y allies. The three
or players—BSky-
nedia group Ber-
mann, and pay-TV
t Canal Plus—will
put up about
million for a 30%
e in the new digi-
network. A 10%
nk of nonvoting
es goes to French
ia firm Havas. The
e big partners
e already cooperated in turning
nd Vox, another German TV chan-
Bertelsmann board member Michael
nemann was convinced that he and
riend, Canal Plus chief Pierre Les-
, could work with Murdoch on the
e ambitious digital service.

DBLOCK. In late January, Dorne-
n met with Goldman Sachs deal-
er and BSkyB board member John
nton. Dornemann wanted to devel-
service using the just-launched As-
satellite, each of whose digital
sponders can broadcast up to 10
nels at once. Lucky for Dornemann,
doch had just dined in Paris with
cure, and came away thinking this
someone he could do business with.
he partners plan to base the new
vork on Premiere, Germany's only
ing pay-TV channel, which is already
ly owned by Bertelsmann and Canal
. In addition to investing in the new
venture, Murdoch's BSkyB hopes to

BIG SCORE: *Premiere's 1.1 million subscribers will get 20 new channels*

buy 25% of Premiere for about $300 million. Premiere's 1.1 million subscribers will be offered 20 new digital channels of German-language programming, including news, sports, movies, and "thematic" channels offering children's fare, arts programming, and other subjects.

There is a roadblock: Kirch Group, which also owns 25% of Premiere. Even before Murdoch's arrival on the scene, Kirch had quarreled with Bertelsmann and Canal Plus over proprietary decoder technology—the set-top boxes that decompress and unscramble the satellite signals for digital TV. Kirch wanted decoders developed by his company, while the other two favored boxes they had built jointly.

By the time Murdoch started talking with Canal Plus and Bertelsmann, the split had grown so bitter that Kirch was not asked to join the group. But Gottfried Zmeck, managing director of the Kirch Group, has reservations anyway about opening Germany to Murdoch: "I don't know why Bertelsmann or Canal Plus would want to bring in BSkyB." As an investor in Premiere, Kirch can veto any transfer of ownership to Murdoch. Bertelsmann and Canal Plus might try shifting Premiere shares to a separate holding company that can have Murdoch as an investor. If Kirch somehow blocks that gambit, the three partners will start a service from scratch.

An embittered Kirch has now licensed his decoder technology to a competing digital TV network being set up by Swiss retailer Metro and Vebacom, the telecom and cable unit of German oil company Veba. Kirch may also launch his own digital service and join forces with Italian media chief and politician Silvio Berlusconi, in whose Mediaset Kirch has taken a 7.8% stake. Or he may hook up with CLT, the partner Murdoch rejected but which owns 12 TV stations in five countries, including RTL, Germany's biggest commercial station.

Unless Kirch drops his decoder, the Murdoch group risks competing in a German market split between two standards. Murdoch is hoping for peace with Kirch, but he'll fight if necessary. Says a source close to Murdoch: "We can join forces now, or we can kill each other and then join forces." Another Murdoch-inspired media war seems set to explode.

By Paula Dwyer in London, with John Templeman in Bonn and Gail Edmondson in Paris

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hree national
channels. Also,
Cecchi Gori, a
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a rival Italian
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rk, for live
rights to Italian soccer

set also needs a war chest to fi-
ight against bigger and more
e predators on the European

UNDER SIEGE: *Selling off some of his media group*

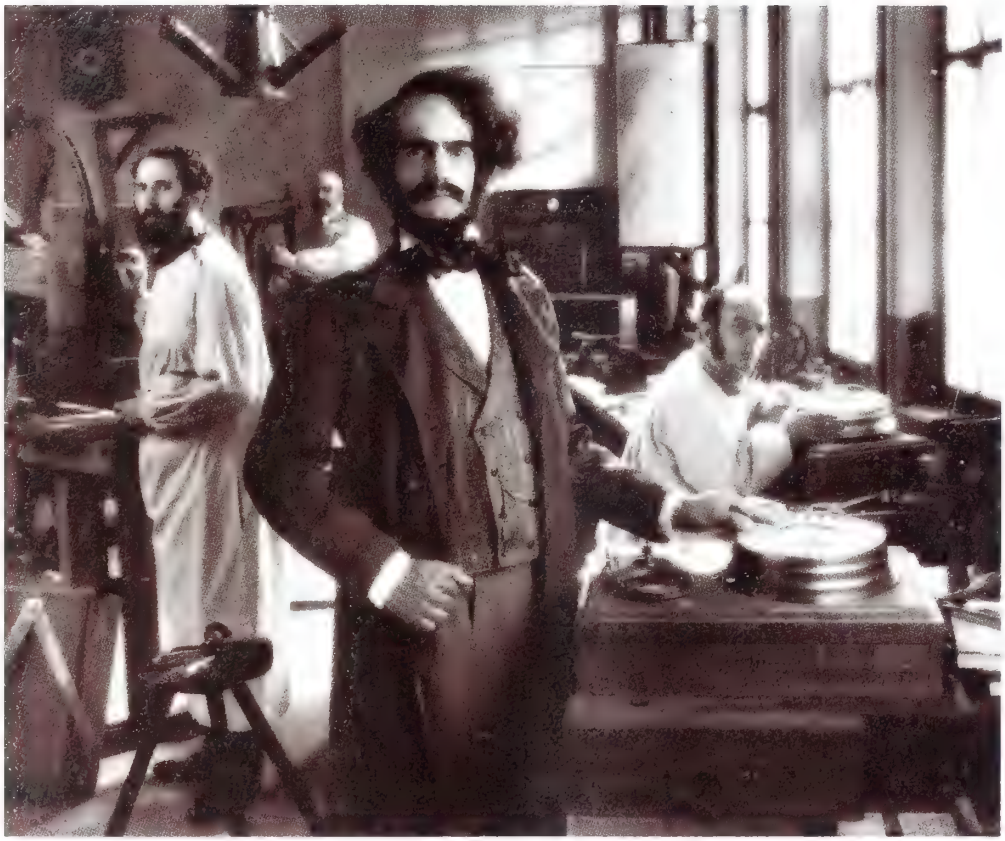
TV scene, such as Rupert Murdoch's British Sky Broadcasting and Germany's Bertelsmann. Although Mediaset is not involved in the battle over German digital TV, one of its major shareholders is Leo Kirch, the German media heavy now sparring with Murdoch. Kirch's Italian connection puts Mediaset firmly in the group opposed to Murdoch—who tried unsuccessfully to buy Fininvest's TV operations in 1994. Murdoch's group would probably enter the Italian market after Germany. "There's a colossal game being played out that will have a huge effect for the rest of Europe," says Ubaldo Livolsi, the Dow Chemical Co. veteran who now runs Mediaset for Berlusconi.

Berlusconi's move to being a full-time politician means Mediaset is no longer led by a man who even detractors acknowledge is a genius of the TV business. Will Berlusconi come back to work if he loses in April? "Speaking personally, I think Berlusconi has now totally dedicated himself to politics," says Livolsi. "But I'd be more than happy to have him return to the company." Mediaset shareholders would be happy to see him back, too, if the going gets really rough in Europe's turbulent media market.

By John Rossant in Rome

SIEMENS

1847. That was then.



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MARKETS

SHOULD THE STREET BE FREAKED OUT?

Not really. By most measures, the Dow has room to run

Call it interest-rate shock. Mar. 8: A stunningly strong employment report triggers a massive sell-off in bonds, driving up the yield on the long-term U.S. government bond a quarter-point, to 6.71%, and dragging the Dow Jones industrials down 171 points. Mar. 11: Rates fall on the next trading day, and the Dow recoups 111. Mar. 12: Bonds sink anew, yields rise to 6.66%, and stocks swoon.

It wasn't supposed to be like this. Until a few weeks ago, investors operated on a scenario that the economy was in low gear, that inflation was dead in the water, and that corporate profits would show little growth. Stocks were to move ahead, because interest rates would remain under downward pressure—and it would be only a matter of time before the Federal Reserve Board slashed them further. Says Byron R. Wien, U.S. investment strategist for Morgan Stanley & Co.: "In just one day, all of the stock market's assumptions about 1996 were blown away."

NO BARGAIN. Now, the stock market is bouncing about as investors try to adjust to interest rates far higher than they imagined. That has caused a revaluation of stocks. The bull market is far from over, but it's also clear that stocks are not the bargain they were for most of the past year—or even a month ago. Indeed, some analysts say the stock market is fully valued now. But interest rates tell only part of the story, and they've been doing all the talking. Earnings count, too, and in a stronger economy, they could offset the drag of higher rates. But so far, investors can't seem to get their minds off of interest rates.

[illegible]'s understandable. The 1900-point rise in the Dow that started 16 months ago was a product of falling interest rates. "Historically, you get the best stock market returns when interest rates are falling," says Melissa K. Brown, [illegible]tor of quantitative research at Prudential Securities Inc. "It's harder to make gains when rates are going up." During 1995, bonds were rising, interest rates were falling, and no matter how far the stocks in the Dow or the Standard & Poor's 500-stock index went, they remained cheap. That's because interest rates kept coming down and boosting what analysts call the "fair value" of the market.

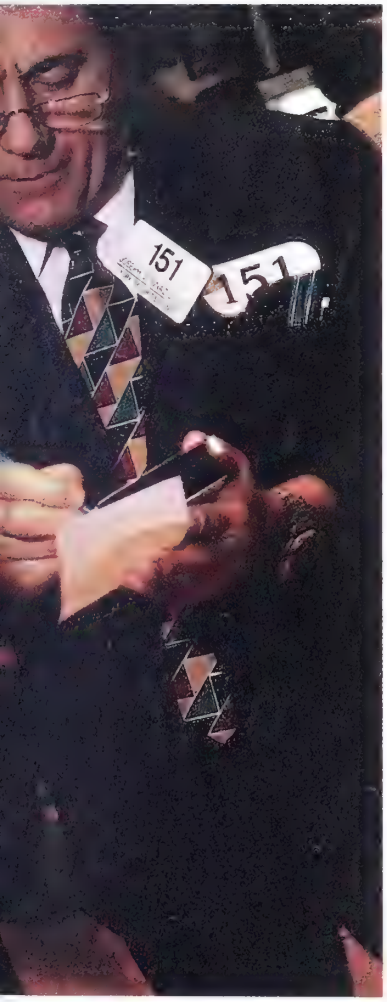
Fair value is a theoretical price for stocks given a level of interest rates and corporate earnings. If rates fall but earnings remain the same, fair value rises, because the return on stocks comes more attractive relative to w you can earn on an interest-bearing vestment. Conversely, when inte rates rise, fair value falls as stocks come less attractive. Think of it way, says Morgan Stanley's Wien: value is the point of balance at w stocks and bonds are equally attrac investments.

So far, by most measures of fair ue, the upturn in interest rates has sent the stock market into the "over ued" zone. But the rate rise is qui closing the valuation gap, erasing eq investors' margin of comfort. "A weeks ago, stocks were 19% under ued relative to bonds," says Stanley vine, director of quantitative resea for First Call Corp. "Last week t were 9% undervalued, and now it's 6 Morgan Stanley's fair value model points to fuller valuations (table). U a forecast of $40 per share in opera earnings for the companies in the 500—the consensus of investment str gists' earnings estimates for 1996— today's interest rate, the fair value

STRANGE DAYS: *Traders are skittish about the new interest-rate climate*

S&P 500 is about . That's about 6% ve current levels. en, for one, thinks nings will weigh in $41 and estimates fair value at 691— ut 8% higher than current level. He's re bullish on the nomy than most, has been for some e.

ndeed, investors are ning around to an nomy that's stronger n they thought. e employment number shows the nomy is no longer decelerating," says vin R. Parke, director of equity re- rch at Massachusetts Financial Ser- es Co., a mutual-fund company with billion in assets under management. t we don't think it's going to reaccel- te, either. It will go along in a flattish of way." Adds Philip N. Maisano, sident of Evaluation Associates, a walk (Conn).-based pension fund con- ant and money manager: "You don't e the kind of income numbers to sup- t a major [economic] growth spurt."



What's 'Fair Value' for the Stock Market?

Analysts expect operating earnings per share to be about $40 this year. With long-term bonds at 6.5%, the "fair value"—the point at which stocks and bonds are equally attractive investments—is 706. At 7%, it's 649. When interest rates are about 6.75%, you can estimate the fair value to be 677, which makes the stocks about 6% undervalued.

S&P 500 OPERATING EARNINGS PER SHARE	YIELD ON 30-YEAR U.S. TREASURY BOND 5.5%	6.0%	6.5%	7.0%	7.5%
$36	760	710	651	599	554
37	794	725	665	612	565
38	812	741	679	624	577
39	829	756	693	637	588
40	846	771	706	649	599
41	863	787	720	662	611
42	880	802	734	675	622
43	897	817	748	687	633

DATA MORGAN STANLEY RESEARCH

But even if the economy isn't going to step into high gear, interest rates are not likely to drop soon. "The Fed has to take these statistics at face value," says Paul W. Boltz, chief economist for mutual-fund giant T. Rowe Price Associates, which has $75 billion in assets under management. "It can't lower the fed funds rates now." Long-term rates could come down if bond investors start buying. But that's not going to happen soon. Investors will want to see a few more months of numbers to determine if the February numbers were a fluke or the real thing.

The bond crowd will also be watching to see if inflation kicks up. If it doesn't, bond prices should start to move up and rates come down. It was a fear of higher inflation that spooked the bond market in 1994—and its failure to show up got the bond rally going late that year.

But focusing solely on interest rates misses half the point, since earnings are the other side of the valuation equation. With a better economy, profits will be stronger. Edward M. Kerschner, chairman of the investment policy committee at PaineWebber Inc., was expecting lower, not higher rates this year. But he's not disappointed. He thinks the economy will avoid recession, and as a result earnings will be 10% higher than he expected—and that should offset the drag of higher rates. He still expects the Dow to reach a target price of 6100 in 1996.

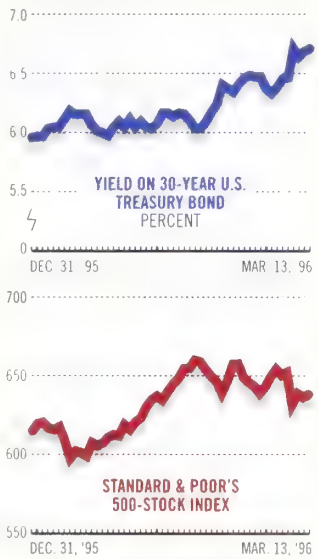
GUIDEPOSTS. Just as it will take time to sort out the interest-rate picture, the earnings outlook could improve in a few months. Abby Joseph Cohen, co-chair of the investment policy committee at Goldman, Sachs & Co., uses multiple valuation measures that compare earnings, dividends, and corporate cash flows to a variety of long- and short-term interest rates and to the inflation rate. Most of these measures indicate stocks are fully valued based on 1996 earnings. But next month, Cohen adds, she will start to work up next year's profit forecasts, "and stocks will likely be undervalued based on those estimates." Hey, but that's 1997? No matter: The stock market always looks six to nine months ahead, and 1997 profits will be in investors' gunsights by summer.

Analysts warn that value guideposts are just that. Just because stocks reach fair value, they don't necessarily head south. Momentum and enthusiasm can keep stocks rising for a long time. Cohen says over the last 30 years, bull markets have peaked, on average, when they reached 15% to 18% above fair value. In 1987, the crash didn't come until after the market had hit 42% over fair value.

High as stock prices are, the indicators today suggest that stocks are a long way off from that kind of dangerous overvaluation.

By Jeffrey M. Laderman in New York, with William Glasgall in Norwalk, Conn.

RISING INTEREST RATES SLAM STOCKS



DATA BLOOMBERG FINANCIAL MARKETS

Focusing solely on interest rates misses half the point. Earnings are likely to keep rising–and help keep stocks pointed in the right direction

MUTUAL FUNDS

THE STRAITS OF MAGELLAN

Will Jeff Vinik be a target of Fidelity's next housecleaning?

He may seem mild-mannered on the surface, but Edward C. "Ned" Johnson III, chairman of Fidelity Investments, certainly has a knack for the dramatic. On Mar. 11 he demoted or reassigned 18 of Fidelity's top fund managers running $60 billion of Fidelity's $386 billion. The changes left a crucial question: What is the fate of Jeffrey N. Vinik, manager of Fidelity's $55 billion Magellan fund?

Vinik has underperformed the market for two of the three full years he has run the fund and is behind again this year. His fund took a roller-coaster ride last year, and Johnson may be getting queasy. Fidelity watchers are betting Vinik may be snared in another round. "Phase II will come this summer," predicts David J. O'Leary, a former Fidelity executive who runs Alpha Equity Research Inc., which tracks Fidelity funds.

ANGRY INVESTORS. To be sure, Vinik produced a solid 36.8% return last year, just a hair behind the 37% gain in the Standard & Poor's 500-stock index. But he achieved it only after giving shareholders a wild and risky ride. After putting nearly half of Magellan in technology stocks last year, the fund soared 42% through September, vs. 27% for the S&P 500. Then, while the overall market continued to zoom, Vinik's tech stocks plunged in the fourth quarter and his huge lead vanished. In 1996 he poured cash into short-term instruments and bonds, making Magellan one of Fidelity's poorest-performing growth funds this year, with a paltry 0.6% return through Mar. 12, vs. 3.4% for the S&P 500.

The gyrations have some investors steaming mad. "The public doesn't want that kind of volatility," says James B. Kruzan, who runs Investment Management & Research in Clarkston, Mich. Kruzan is advising his General Motors Corp. 401(k) clients not to invest their retirement money in Magellan. Eric M. Kobren, a veteran Fidelity watcher who cut his investment rating on Magellan to "hold" two weeks ago, thinks Vinik's job is secure but says: "If he underperforms for another year, all bets are off." Fidelity would not make Vinik or other managers available for comment.

JOHNSON: *He reshuffled 18 managers*

Fidelity's chief of equities, William Hayes, dismisses Vinik's critics. "He's done an excellent job," he says, adding: "We're hoping that Jeff will run Magellan for years to come." To be sure, V has kept Magellan in the top 25% of growth funds and is still considered many to be one of the country's p mier investors.

As billed by Fidelity, peformance little to do with many of the transf For example, according to Hayes, F Chip Growth Fund manager Michae Gordon was transferred to a post m suited to his style and insists that th was no problem with the way the f was managed. However, Gordon come under fire for filling the fund v midcap stocks instead of blue chips, the fund lagged the market by r points last year.

TEAM APPROACH. The most high-pro trip to the woodshed was taken by set Manager Fund chief Robert Beckwitt. The former star had built $18 billion empire of three asset-allo tion funds that were once heavily p moted by Fidelity. But Beckwitt v removed after barely 18 months of la luster results. Another mana drubbed for poor performance was J R. Hickling, who ran three internati al funds totaling $4.8 billion. His larg fund, the $2.6 billion Overseas Fu produced an average 5.5% return the past two years, vs. 9.5% for glo stocks generally. Another manag Robert D. Haber, was made directo equity research, with no direct mor management duties, after his $4.7 bil Balanced Fund significantly underp formed the market for two years.

Amid the management turmoil i new approach to running money t some outsiders think might become m common at Fidelity in the future: te management. The team approach is be used on six Asset Manager funds, p Balanced and Puritan. S Fidelity watchers have p dicted that Fidelity's hu size will ultimately requir to divide up fund ass among more managers. Hayes says teams will used only in funds wh charter requires investme in multiple asset classes, s as stocks and bonds.

Magellan may be spa the team approach, beca its charter doesn't mand multiple asset classes. if subpar performance flamboyant risk-taking c tinues, Ned Johnson m have to haul out his bro yet again.

By Geoffrey Smith
Boston

New Faces At Some Big Funds

FUND	NEW MANAGER	OLD MANAGER	'95 PERFORMANCE (& DIFFERENCE FROM S&P)
PURITAN $16 billion	Bettina Doulton	Richard Fentin	21% (–16%)
ASSET MANAGER 11.3 billion	Richard Habermann George Vanderheiden Grant/Gray	Robert Beckwitt	18% (–19%)
BLUE CHIP 8.1 billion	John McDowell	Michael Gordon	28% (–9%)
VALUE 6.0 billion	Richard Fentin	Bettina Doulton	27% (–10%)
BALANCED 4.9 billion	Steve Petersen	Robert Haber	21% (–16%)

DATA: FIDELITY INVESTMENTS

FLOW CONTROL ▲ ANVIL/CANVIL ▲ WINN VALVES ▲ HINDLE VALVES ▲ NEOTECHA ▲ J.B. SMITH ▲

FIRE PROTECTION ▲ GRINNELL ▲ BUSCH ▲ WEATHER E PLATT ▲ MOELLER ▲ O'DONNELL GRIFFIN ▲ TOTAL WALTHER ▲ WORMALD

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BANKING

HOLD IT RIGHT THERE, CITIBANK

Japan could hobble the bank in the race to develop E-cash

When Citibank applied for Japanese patents for its digital-money technology, the money-center giant did everything by the book. It thoroughly checked existing research and even ran a 200-page description of its work by Japan's Ministry of Finance. Having won patent protection in the U.S., and with similar filings in 40-odd countries, Citi figured Japanese approval wouldn't be a hassle.

Not so. In March, a group of Tokyo banks, led by Sakura Bank Ltd. and Mitsubishi Bank Ltd., complained to the Japanese patent office that Citi's claims on proprietary electronic-cash technology were too broad and might stymie their own moves into cyberbanking. Citi execs were left reeling. "We've been working on this for four years," says Sholom Rosen, Citi's vice-president for electronic commerce and inventor of the bank's Electronic Money System. "This is real technology."

Unfortunately, owing to Japan's glacial patent system, it could be years before Citi gets an answer. Eastman Kodak Co. spent more than a decade fending off objections from Japanese rivals to a pending patent for recording technology used in videocassette recorders. Japanese opponents claimed the technology was common knowledge and had been disclosed in journals as far back as 1974. But Kodak won the case in 1993.

Citi's Japanese rivals are going to make the most of the delay. A group of Japanese commercial banks and high-tech powerhouse Hitachi Ltd. will soon back the rival Mondex cybercash system under development by London-based National Westminster Bank PLC. The group, which includes Fuji Bank, Sakura, and Nippon Telegraph & Telephone, is considering taking a stake in Mondex International, which will be spun off from NatWest and owned by franchises worldwide.

In an increasingly wired world, digital-cash technology looms as the Holy Grail. The prospect of designing the definitive system for convenient and secure electronic-cash transactions has everybody from Microsoft Corp. to Visa International exploring the technol
Such a system would allow consum
to use smart cards with embedded
crochips to load up with electronic m
ey via automated teller machines or
sonal computers and telephones.

Pulling it off won't be easy, given
potential for pirating bank account
counterfeiting. But those first into
market could reap big rewards. Sys
providers could collect franchise
and, possibly, royalties. Banks
charges of their own. Natwest and
er British banks will charge consum
about $2 a month to hook into Mon

HEADSTART. In the U.S., some 20% o
household purchases, or about $3 tril
worth, may be made electronically
2006, according to some estimates. In
pan, where consumers already pay ut
bills electronically at convenience-st
chains and personal-computer sales
booming, E-money could catch on as

And the Japanese aren't about to
the business fall into enemy hands.
Bank Ltd., one
the Japanese M
dex partners, has
up an E-money
totype of a sepa
system in an "in
ligent" building
central Tokyo.
bank has wired
shops and rest
rants, and lets co
mers conduct tra
actions with spe
cards. On Mar.
Hitachi unveiled
array of Mon
card-compatible
getry, including
electronic "wallet" with a modem that
lows consumers to bank on the road.
exclusive supplier to Mondex, Hita
aims to grab the lion's share of the h
ware business.

Thanks to the likely suppor
Japanese banks and Hitachi, M
dex may have an early lead o
Citi and other wannabes. But
hard to rule out Citi, with a h
worldwide branch network
international payment system
rivals can match. Indeed, C
Rosen isn't fretting about the
parent setback. "This won't
the technology on hold," he s
"It doesn't stop us." Maybe
but with Japan backing the c
petition, Citi seems to have fa
behind in the race.

By Brian Bremner in Tok
with Joan Warner in New Y
and Jonathan Ford in Londo

THE CYBERBANKERS

CITIBANK Citi is applying for patent protection in 40 countries for its Electronic Money System

DIGICASH The Amsterdam-based company offers electronic cash that preserves anonymity, unlike other systems

NATWEST Its Mondex International system is being tested in Britain; close to a deal with Japanese banks and Hitachi to roll it out in Japan

VISA The credit-card giant is in talks with Barclays Bank and others to franchise its Visa cash system

DATA BUSINESS WEEK

Aon Risk Services

Aon Consulting Worldwide

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Aon Re Worldwide

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AON

Aon Group

BY GENE G. MARCIAL

HEALTHY PICKS IN HEALTH CARE

From his Fifth Avenue office in New York, David Talbot runs a Luxembourg-based fund, mainly for offshore clients who want to invest in U.S. equities. Talbot's specific targets: stocks that will benefit from the fast-changing health-care environment.

Don't bother with big drug houses, says Talbot, president of HealthReform Partners. The best bets are lesser-known companies with a "growth rate of 25% to 30% and price-earnings ratios below those expected growth rates."

SUITORS IN THE WINGS?

	STOCK PRICE	EST. 1996 EPS*	BUYOUT VALUE
LUNAR	$42	$1.80	$70
STAAR SURGICAL	13	.70	30
MIDATLANTIC MEDICAL	21	1.45	43
MEDCATH	24	.75	45
HAFSLUND NYCOMED	28	2.60	50

*Calendar year

DATA: BLOOMBERG FINANCIAL MARKETS, HEALTHREFORM PARTNERS INC

Such stocks, he says, are likely buyout targets for pharmaceutical companies seeking nondrug but health-related outfits, such as makers of diagnostic or medical devices.

Lunar (LUNR), which produces densitometers used in diagnosing osteoporosis, or bone deterioration, is one of those stocks, Talbot believes. It has a joint venture with Merck, which makes a prescription drug that treats osteoporosis. The Merck-Lunar venture helps finance the sale of Lunar's densitometers to doctors and hospitals. Sandoz recently won approval for its own drug for osteoporosis. "So there is an interesting triangle with respect to Lunar's densitometer, and Lunar can only be the winner," says Talbot. Quite logically, Merck and Sandoz could vie for Lunar, says Talbot.

Staar Surgical (STAA) is also on the cutting edge of reducing health-care costs, says Talbot. It makes intraocular lenses for micro-incision eye surgery. Some pros say Staar is an ideal target for Johnson & Johnson.

MidAtlantic Medical Services (MME) is a health-maintenance organization that Talbot thinks is attractive to insurers like Aetna, as well as to other major HMOs. Mid-Atlantic serves self-insured employers, indemnity carriers, and multistate employers. With reforms sure to hit Medicare, "that area will be the next big profit opportunity for efficient HMOs," Talbot says.

TALBOT: *Benefit from the reforms*

MedCath (MCTH) "is the most exciting stock in my list," says Talbot, because it directly challenges hospitals on costs. In McAllen, Tex., it has a center for cardiac-bypass surgery that's owned in part by several doctors. "The center performs cardiac surgery at one-third the cost hospitals charge," says Talbot. MedCath is putting up other "heart hospitals" in Arizona, Arkansas, and North Carolina.

Talbot also likes Hafslund Nycomed, a Norwegian company whose American depositary receipts trade on the Big Board, since it announced plans to spin off its energy division, thus creating shares in two companies. As a result, Nycomed will be strictly a pharmaceutical company.

TAKING PARTNERS AT WARP SPEED

If you haven't heard of WARP 10 Technologies (WARPF), don't be crushed. Few have. On Mar. 8, its shares began trading on the NASDAQ at 11¾—and quickly fell to 9½. No matter. WARP 10, which develops and makes ultrahigh-speed communication and networking products, is set to grab attention.

Why? It has signed an agreement, to be announced shortly, with a Big Board-listed global maker of comprehensive networking systems.

This pact, says investment adviser Richard Geist, should boost WARP 10's earnings to 30¢ a share in the year ending Jan. 31, 1997, up from an estimated 1¢ in fiscal 1996. Earnings will leap to $1 in 1998. These figures are based on a projected sales zoom to $30 million in 1997 and $100 million in 1998, vs. $3 million in 1996, figures Geist, editor of *Geist Strategic Investing*. Are these projections too rosy? Geist says they may even be modest.

WARP 10 is teaming up with a company dominant in the U.S. networkin products business, with 1995 revenu of $800 million. It's rumored WARP and its new partner will jointly devel products offering asynchronous transf mode (ATM) solutions for compani that need wider bandwidth to se multimedia information. ATM is a sta dard for the cell-based transmission voice, data, and video information.

One of WARP 10's products is a pac age combining file server, print spool and image server—which reduces i age-file size by up to 90% and spee data movement over any netwo WARP 10 supplies them to the ente tainment and graphic-arts markets.

In three months, WARP 10 may si an additional pact with a telecommu cations giant, says one pro. The sto which edged up to 10½ on Mar. 1 should hit 18 in a year, says Geist.

DON'T MISS THE METROTRANS BUS

There's nothing like a turnarou That's what has happened to Met trans (MTRN), a maker of shuttle a touring buses, just after its initial pu lic offering in mid-1994, at 8½. By D cember, 1994, the stock had dropp to 5½, after earnings plunged to 1¢ share in the fourth quarter, down fr 4¢ in the third and 22¢ in the secor An unexpected spike in raw-mater costs was the culprit.

"But now, we are back—firmly in turnaround phase with costs under co trol and an order backlog of about $ million," says Chairman Mike Walde Indeed, the stock has gone nort shooting to 10⅞ by Mar. 13.

The company is expected to exce analysts' consensus 1995 estimate 73¢ a share. And the 1997 estimates 94¢ to 96¢, says one big investor, a likely to be exceeded, as well.

"The company is exploiting its gro ing niche in the transportation bu ness," says Pat Flavin of Flavin Bla an investment firm in Stamford, Co Metrotrans, a supplier of buses to su customers as Alamo Rent-A-Car, Ry er System, Hyatt Hotels, and the U. military, has also developed marke in retirement communities, railroad st tions, and corporate pooling services. has signed a five-year contract wi the U.S. General Services Administr tion to supply buses powered by nat ral gas or propane. "It's a very che stock here," says Flavin.

UNLIMITED PARTNERSHIP

STEVE KITTELL FROM THE ATLANTA COMMITTEE FOR THE OLYMPIC GAMES *with* JOHN SCANLAN FROM ARAMARK

"ANYONE WOULD HAVE SEEN A PARKING LOT. FORTUNATELY, ARAMARK SAW AN OLYMPIC DINING HALL."

100
anta 1996
Service Manager
he 1996 Atlanta
lympic Games

John Scanlan from ARAMARK: "They said, 'Remember, this is Atlanta 1996. The Centennial Games. This has to be great.' Well, we had no intention of duplicating what we did in Barcelona four years ago. Or Mexico City in '68. Or any of the Games in between. We're here to help 15,000 athletes and coaches from 197 different cultures. Athletes who have prepared for a lifetime to be better than they've ever been in that lifetime. We know that takes more than just a standard issue menu. Or a standard issue effort, for that matter. This is the Olympic Games. You've either prepared to great. Or you haven't." We don't just rely on a book for all the answers at ARAMARK. We have no magic "Olympic Games Menu" dust off every four years. In Atlanta, we'll customize a menu for every single athlete if that's what it takes. We'll even put a world-class chen and dining hall on a parking lot. It's a mind-set that makes it possible for John to add, "In just over four weeks, we'll prepare er one million meals designed for peak athletic performance. Quite possibly a world record."

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COMPUTERS

A BIG SQUEEZE ON BIG IRON

The Intel-Microsoft duopoly looks beyond the PC

Roel Pieper, the new president of Tandem Computers Inc., has seen the handwriting on the wall. After 22 years of creating the most sophisticated hardware and software for managing zillions of transactions—tracking trades on the New York Stock Exchange or billing for AT&T's long-distance business—Tandem is about to bet the farm: It will scale back development of proprietary operating-system software and hardware designs. Instead, it will build computers around handy prefab parts from Intel Corp. and Microsoft Corp.—just as personal-computer makers do.

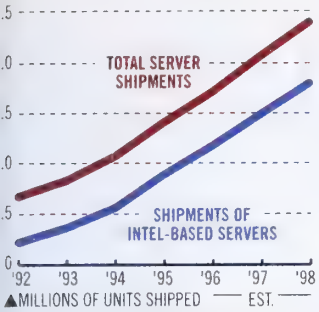
Such a move has been anathema to Tandem and other makers of midrange and high-end computers—who never thought they would have to make it. But new building-block technology from Intel and Microsoft is about to bring the economics of the PC market to every corner of the industry. After years of stagnation and a $22 million operating loss for the quarter ended Dec. 31, Tandem's board is convinced that the company's only hope for a turnaround is to adopt the new business model early. The plan: Start cranking out cheap midrange computers using multiple Intel microprocessors and Microsoft's Windows NT operating system. Then, freely license Tandem's unique fault-tolerant technology to all comers.

"UP AND UP." Get ready for Wintel: The Sequel. In PCs, Wintel machines—clones using Intel chips and Microsoft Windows—dominate. Nearly 90% of the desktop computers shipped are Wintel systems. Now, Intel and Microsoft have a new generation of technology to aim higher. Their new building blocks will let computer makers create inexpensive servers that will pack enough power to run multinational corporations, global computer networks, and massive data centers. Intel and Microsoft will "move up and up and up," Pieper says. "There's no doubt in my mind this will happen."

It won't happen overnight, though. Before the new servers take on the biggest computing jobs, they will have to prove they are as reliable as the machines doing them now—computers whose designs have evolved over decades of use. NT must also be proved. Now, for example, it lacks security f tures that IBM mainframe custom take for granted. And the Intel/W dows NT combo can't match conv tional "big iron" in handling large nu bers of transactions—and may not do for two years. That, according to A Gadre, vice-president for worldw marketing at Sun Microsystems I will give the incumbents time to g more market share. "NT is far fr being the inevitable choice of the c poration," he insists.

But the trend is unmistakable. T Wintel juggernaut has already got u head of steam in the first segm above the PC market. Today, Intel-ba machines account for 63% of netw servers produced, according to mar researcher International Data Co These systems, usually souped-up W

/ith Intel Behind the Computer Server...



DATA INTERNATIONAL DATA CORP

...Prices May Plunge

Current servers based on non-Intel chips will soon face low-cost challengers

COMPANY	COMPAQ COMPUTER	IBM	DATA GENERAL*	HEWLETT-PACKARD	CHEN SYSTEMS	DIGITAL EQUIPMENT
SYSTEM	ProLiant 4500 using four Pentium chips and Oracle database software	RS/6000 Power Server J30 using IBM's PowerPC chips and IBM's DB2 database	Intel Pentium Pro server, with 1.56 gigabytes of memory and 300 GB of storage	Model T500, uses HP's PA 8000 166-Mhz RISC chips and has 300 GB of storage	Chen-1000, including eight 166-Mhz Pentium micro-processors	AlphaServer 8400, uses as many as eight of DEC's own 350-Mhz Alpha chips
PRICE	$619,447	$1.08 million	$460,000	$1 million	$243,000	$1.1 million

*System will be available by second half of 1996

DATA COMPANY REPORTS

cs with lots of extra disk storage, used to anchor departmental net-ks of desktop computers and print-By 1998, 75% of the servers sold have Intel inside.

ne next step will be the arrival of ems built around an Intel circuit

lling cheap prepackaged erboards, Intel could e winners and losers in frames and minis— nas in personal computers

d that incorporates four of the giant's new Pentium Pro micro-essors. Just as Intel motherboards ed Dell, Packard Bell, and Gateway beat IBM and Compaq to market Pentium-based PCs, the Pentium board could instantly put scores of ers into the midrange and high-end puter business. A server built nd a single four-chip Pentium Pro d is expected to deliver the power $1 million server but at half the By putting multiple boards into a em, computer makers can build -end servers, rivaling the largest nframes. Sequent Computer Sys-s Inc., for example, is building a sive server that can use up to 63 tium Pro boards.

SAFE HAVENS. Computer makers once felt their unique technology them above the fray may soon start g the math that compelled Tandem's er to jump on the Wintel bandwag-The new Intel boards and NT will down barriers to entry in the high-anges of the computer market. And e newcomers won't have to do much heir own research and develop-t, they'll drive down prices. Margins will plunge from the 40%-to-55% range that companies need to support R&D for proprietary technology. That could put the squeeze on Digital Equipment Corp., for example. Digital makes its own Alpha chips, which are still more powerful than single Pentium Pros. If DEC must slash prices, it may have trouble maintaining the Alpha investment.

Hardly any segment is safe. At Chen Systems, the Eau Claire (Wis.) startup formed by the supercomputer designer Steve Chen, engineers are working on a Pentium Pro design. Chen, who spent years trying unsuccessfully to design a world-beating supercomputer using dozens of custom chips, is convinced he can get top performance by combining the commodity building blocks. The current Chen-1000 uses eight 166-megahertz Pentium processors and costs $243,000. It delivers 50% of the power of an AlphaServer 8400 from DEC, which costs $1.1 million. That's half the performance for under one-fourth the price. Says Chen: "There will be a new generation of commodity-based machines that will replace the minicomputers and mainframes of today."

That's bad news for mainframe companies such as IBM, Amdahl, and Hitachi, which have already lost ground to increasingly powerful midrange Unix systems. Now, they could find themselves under attack from a new crop of Wintel competitors. And—small comfort—so will the companies that launched the Unix assault, including Sun Microsystems and Hewlett-Packard Co. "The Unix marketplace is going to get clobbered," says Peter Lowber, an analyst at Datapro.

No wonder computer makers ranging from IBM to HP are joining Tandem in adopting the new technology. "Intel servers are the new building blocks for the industry," says J. Thomas West, senior vice-president at Data General Corp. With Intel technology, Data General claims it can sell computers for half the price of some competitors. Intel servers, says West, "will push PC economics into large-scale computing and do for the data center what Intel has already done for the desktop."

"CAN'T FIGHT IT." For its part, the chipmaker says it's simply doing what comes naturally—helping customers create the biggest possible market for a new Intel chip. If that means turning midrange computers into a mass market with PC-industry economics, so be it. "You can't fight it," says David L. House, a senior vice-president. "People who try to fight the tide will suffer."

Microsoft is working to make Windows NT inevitable, too. The NT server operating system is rapidly evolving into a "serious" operating system and gaining popularity in Corporate America. NT is already a clear and present danger for Novell Inc., whose NetWare is the leading software for running basic local-area networks (page 182).

Now, married to speedy Intel hardware, NT is set to challenge Unix, the most popular operating system for midrange computers. Microsoft has convinced companies such as SAP America and Computer Associates International to adapt their mainframes and minicomputer packages for NT. Database king Oracle Corp. also offers programs for NT. Microsoft has a compelling sales pitch: If you write for NT, your product will run on scores of computers. If you write for Unix, you must customize the software for every machine—because no two Unix systems are alike. Another factor: Shipments of all forms of Unix grew by 12%, to 517,000 copies last year, while NT sales quadrupled, to 413,000, says IDC.

The growth is occurring in a huge sweet spot in the market—where Unix servers have been selling briskly into

the corporations that want to downsize from mainframes. These customers, says Anthony A. Ibarguen, executive vice-president at Entex Information Services Inc., a Rye Brook (N. Y.) computer reseller, may be surprisingly eager to start buying larger systems the way they now buy PCs. "Does it really matter to customers that it says IBM or Compaq outside—or is it Wintel inside they care about?" he asks.

NEW SHAPE. Customers are already kicking the tires on Pentium Pro prototypes. Texaco Inc. is testing servers from Data General, running Oracle databases on NT. Ed McDonald, chief architect for Texaco, says he's less excited about cost savings than about how he can use NT to simplify his life. If all sorts of computer makers sell NT-based gear, he can make his selection on more important criteria than price and performance. "We won't make the decision on price, because we don't expect that much difference," says McDonald. "We'll make it instead on service: Who has service organization that can perform in mission-critical solutions?"

In a few weeks, the new midrange and high-end market will start to take shape. IBM, HP, Compaq, and Dell plan to introduce servers built around the Intel Pentium Pro boards. Compaq Computer Corp., the leader in PC servers, is bound to be particularly aggressive. "This will place us in the heart of the traditional midrange," says Gene Austin, vice-president for marketing at Compaq's Systems Div.

To make sure NT is up to the job, Microsoft is negotiating with computer makers to get technology to beef up the operating system. Tandem software for running multiple processors and handling complex transactions would help. Both companies decline to comment on a deal. Microsoft is already working with Digital and NCR for technology that will make NT work in large-computer installations and is developing transaction processing software on its own.

Will that carry Wintel machines into the heart of mini and mainframe territory? Yes and no. As the slowdown—rather than sudden death—of mainframe sales has proved, it's hard to kill an entrenched computing technology. But the low-cost power of the new technology can't be ignored. The answer, says Richard C. Watts, general manager of HP's computer-products organization, is that the old and new "will have to learn to coexist." Peacefully?

By Ira Sager with Amy Cortese and John W. Verity in New York, Paul C. Judge in Boston, and bureau reports

MICROSOFT MAY SOUND 'THE DEATH KNELL FOR NOVELL'

Novell Inc. was certainly in the right place at the right time. Just as corporations began tying personal computers into networks in the 1980s, Novell came out with NetWare, software that let PCs share files, programs, and printers. NetWare became a standard that neither IBM nor Microsoft could dislodge. And the company was poised to ride the growth wave of the 1990s: the move to bigger, more complex networks, including the Internet.

SELL-OFF: *Novell CEO Frankenberg has undone his predecessor's diversification*

Instead, Novell is behind the eight ball. Sales of its WordPerfect programs—recently sold to Canada's Corel Corp.—have cratered. Growth in the core business has slowed, too. In the quarter ended Jan. 27, sales slumped 11%, to $438 million, and Novell has warned that, with the WordPerfect sale and a shift to direct sales of NetWare, revenues could drop by $225 million this quarter, producing a modest loss. Novell shares have skidded from a high of 35 in 1993 to an all-time low of 11¾.

One reason for the reversal of fortunes: Microsoft's Windows NT. While NetWare has been upgraded, it is still limited mainly to sharing files and printers across a network. Today, such simple networking is growing a modest 12% a year. But there's surging demand for what NT does: running database programs and applications for accounting or manufacturing, for example. That has attracted some 400,000 server customers to NT—many of whom would have chosen NetWare in the past. Now, Microsoft is getting more aggressive, giving away software to turn NT systems into servers for the World Wide Web. "That's the death knell for Novell," says analyst Paul D. Callahan of Forrester Research Inc.

NEW FOCUS. It may be too soon to write an epitaph. Novell retains a huge following—40 million PCs on 3 million networks. And Robert Frankenberg, who took over as CEO in 1994, has undone the diversifications of predecessor Raymond J. Noorda. In addition to unloading WordPerfect—for $750 million less than Noorda paid—he sold the Unix software unit for $70 million plus ongoing royalties.

Now, Novell is finally focused on networking. An improved version of NetWare, dubbed Green River, which adds transaction processing and enhanced security, is due this summer. And Novell is extending NetWare and groupware programs to work with the Web, adding support for Sun Microsystems Inc.'s Java language and lining up new partners such as AT&T.

Novell's best hope may be in the next big network challenge: creating a universal method for keeping track of resources—users, passwords, E-mail addresses, PCs, and programs—on a corporate net or the Internet. NetWare has directory services, and Novell programmers are developing versions for other systems, including NT and Unix. Microsoft won't have similar services until next year. "He who controls the directory wins the next round," says Lee Doyle, an analyst with International Data Corp. And for Novell, there may not be many others.

By Amy Cortese in New York, with Kathy Rebello in San Francisco

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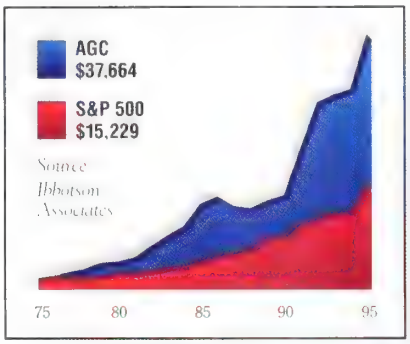

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SELECT *Investors*	22.7%	10.2%	11.8%	16.5% (6/30/71)[2]
GROWTH *Investors*	20.4%	14.8%	14.2%	18.2% (6/30/71)[2]
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MPUTERS

ATEWAY'S DESTINATION: OUR LIVING ROOM

betting consumers are ready for its big-screen PC-TV

eodore W. Waitt didn't get where e is by following the herd. Instead f setting up shop in Silicon Valley ome other high-tech enclave, he ed Gateway 2000 Inc. in cow coun- North Sioux City, S. D. He ignored tampede to mass-market electronic s and stuck with mail-order sales. presides over the largest mail-or- PC company in the U. S.—revenues ed 37%, to $3.7 billion in 1995— doesn't look the corporate mogul. With his hair pulled back in a ponytail, the 33-year-old entrepreneur greets visitors in jeans, an open-collar shirt, and cowboy boots.

So it should come as no surprise that just when the computer industry is buzzing about stripped-down, $500 PCs for cruising the Internet, Gateway is headed the other way. This spring, the company plans to start selling a deluxe, $4,000 home-entertainment setup built around a personal computer, a 31-inch TV, high- sound and graphics capabilities, and reless keyboard.

alled Destination, the system is de- ed to bring computing into the liv- room. Families, says Waitt, will be to play CD-ROM games or check out sites without crowding around a monitor. "We're creating a new cat- y of product," he says. "We think e's a huge market for this." Tech- gy gurus are impressed. "It's a hell concept," says Kimball Brown, an yst at Dataquest Inc.

ut will it sell? "I don't know that we've reached the point of having a computer in the living room," says Paul Kandel, senior sector manager at Dreyfus Corp., one of Gateway's largest shareholders. He worries about the company losing focus.

PITFALLS. Destination is not the first TV-PC combo. There have been TV tuner cards that let PCs show broadcasts in a small window. Apple Computer Inc. brought out the Mac TV in 1994, but it never entered mass production. Destination surpasses those machines by marrying a conventional TV screen to computer graphics technology, which results in crisper resolution than a standard TV.

The PC-TV could pose unprecedented challenges for Gateway. This is the first time the agile PC cloner has pioneered a new market segment. And, Waitt concedes, Destination may force Gateway to move beyond mail order. Destination will be offered through the direct-sales system, but Waitt says he's also talking to retail chains, including Best Buy and Elek-Tek, about carrying the hybrid PC.

E.R. AND AOL: *Waitt is taking a risky step into retail*

Gateway is painfully aware of the pitfalls. Archrival Dell Computer Corp. tried selling home PCs in mass-merchandise stores in the early 1990s—only to retreat in 1994, when mounting store inventories contributed to a $35.9 million loss. "We found the key advantages of our business model did not apply in the retail channel," says Tom Martin, Dell's vice-president for marketing.

That's a lesson Waitt is taking to heart. He points out that any deal with retailers will be only to sell Destination—not PCs. "We don't want to screw up our fundamental model," he says. In other words, Destination may not be destiny.

By Peter Elstrom in North Sioux City, S. D.

YBRID TECH

ponents of a 00 home PC

MPUTER

Pentium, 1.6 hard drive, 16 es of RAM, TV speed CD-drive, s modem, stereo rd. Speakers

ONITOR

monitor that dis- sp computer text hics, legible from way.

T DEVICES

e keyboard and a te-size" device to onscreen cursor. k wirelessly using ves, not infrared, owners don't point the devices t the screen.

COMPANY REPORTS, BUSINESS WEEK

ONLINE SERVICES

WILL WOW! WOO THE WARY?

CompuServe serves up an online solution for holdouts

Despite all the hype about going online and surfing the Net, only 11% of U. S. households—roughly 11 million homes—subscribe to any online service. According to a survey conducted by San Francisco's Odyssey Research Partners, what makes personal-computer owners shy away is the difficulty of setting up the software and hardware to get connected. What's more, once online, new surfers often can't find the information they want—or their kids find what the parents don't want them to see.

These are the simple facts that have shaped CompuServe Inc.'s latest service. By focusing on those needs and concerns, the No. 2 consumer online service hopes to make a dramatic renewed push into the growing market. In mid-March, the H&R Block Inc. subsidiary, based in Columbus, Ohio, showed off Wow!, a service created specifically for nontechies, says Scott L. Kauffman, vice-president and general manager of the new service.

"FEEL FREE TO EXPLORE": *It costs $17.95 a month for unlimited access*

For example, to simplify online navigation, the main menu is divided into two sections. The top row consists of "action" buttons—things one can do online, such as chat or shop. Icons in the bottom row represent "places"—areas of interest, such as sports, where Wow! integrates both its own content and links

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– Norm Creighton, President and CEO

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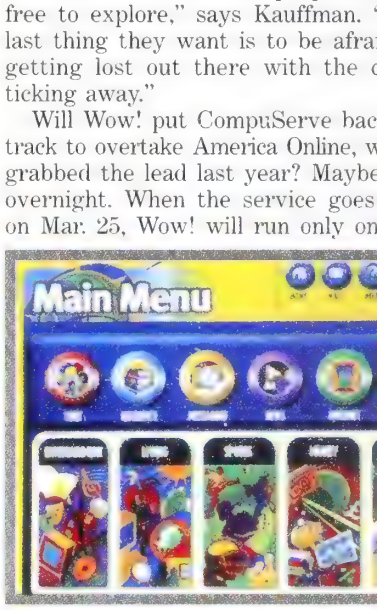
HISTORICAL CANNERY SITE WHALES KING SALMON FLOAT PLANES SEA LIONS RED SNAPPER HALIBUT

to sites on the Web. Not rocket scie
But with this setup, "you're no r
than three or four mouse-clicks a
from where you want to go or what
want to do online," says Kauffman.

To shield children, Wow! provid
kids' interface that locks out online
tures, such as access to the entire
ternet. Parents can also preview E-
messages that arrive for the kids.

THIN ON CONTENT? Another factor k
ing consumers from logging on has
cost. CompuServe's solution: $17.
month for unlimited access to Wow!
the Internet. "We want people to
free to explore," says Kauffman.
last thing they want is to be afra
getting lost out there with the c
ticking away."

Will Wow! put CompuServe bac
track to overtake America Online, w
grabbed the lead last year? Maybe
overnight. When the service goes
on Mar. 25, Wow! will run only on



PLAIN SAILING: *Top buttons are for "actions"; bottom ones for "places*

using Microsoft Corp.'s Windows 95
erating system. And while a versio
the Mac is due by the fall, Wow! w
be available for Windows 3.1—bec
that operating system can't techni
support the CompuServe offer
"[Wow!] will exclude a lot of use
says Mark Mooradian, an analys
Jupiter Communications LLC.

What's more, Wow! initially ma
thin on content. In addition to E-
and Internet access, it has *Sports*
lustrated for Kids, Entertainment D
—a popular forum started on C
puServe—and agreements with the
tional Geographic Society to proc
special online areas. But there isn
whole lot more at the moment. C
puServe already has plenty of o
publications online, however, such
People and *Time*, that could eventu
be offered on Wow!, too. So for
neophytes might have to create t
own reasons for staying around.

By Paul M. Eng in New

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EDITED BY AMY DUNKIN

HOW TO FIND AN EXECUTOR WHO'S WILLING—AND ABLE

ESTATE PLANNING

Comedian W. C. Fields left his executor a nightmare task. Fearful of being stranded in strange places, the actor opened bank accounts in whistle-stops across the country. What's more, he often used fictitious names, so that finding all of the accounts after his death posed an enormous challenge.

While you can't put your executor through quite the same hoops now that banks are required to issue 1099 forms reporting interest income, you still need someone who can accurately account for all your assets when you die and manage those assets wisely until they can be distributed. The choice of an executor (called a personal representative in some states) is critical to a well-thought-out estate plan. Yet many people simply name a relative or a friend, without giving the matter much thought.

"USELESS." Being an executor isn't an honor. It's a job—and a big job at that. Once you look at what an executor must do, you'll want to choose an individual with both financial know-how and the willingness to carry through. Willingness is as vital as competence, says trusts and estates attorney Jerome Manning of Stroock & Stroock & Lavan in New York. "You can pick someone with financial experience, terrific judgment, and good sound business knowledge, but if they won't spend the time doing the job, they're worse than useless."

Before you name your executor, check into the rules in your state. Florida, for example, requires that a personal representative be either a blood relative or state resident. Then think about just how much you're asking your executor to do, and bear in mind that this time-consuming responsibility can easily last from 18 months to three years. Name a successor executor in your will in case your first choice is unable or unwilling to serve at the time of your death.

Executors have five major tasks:

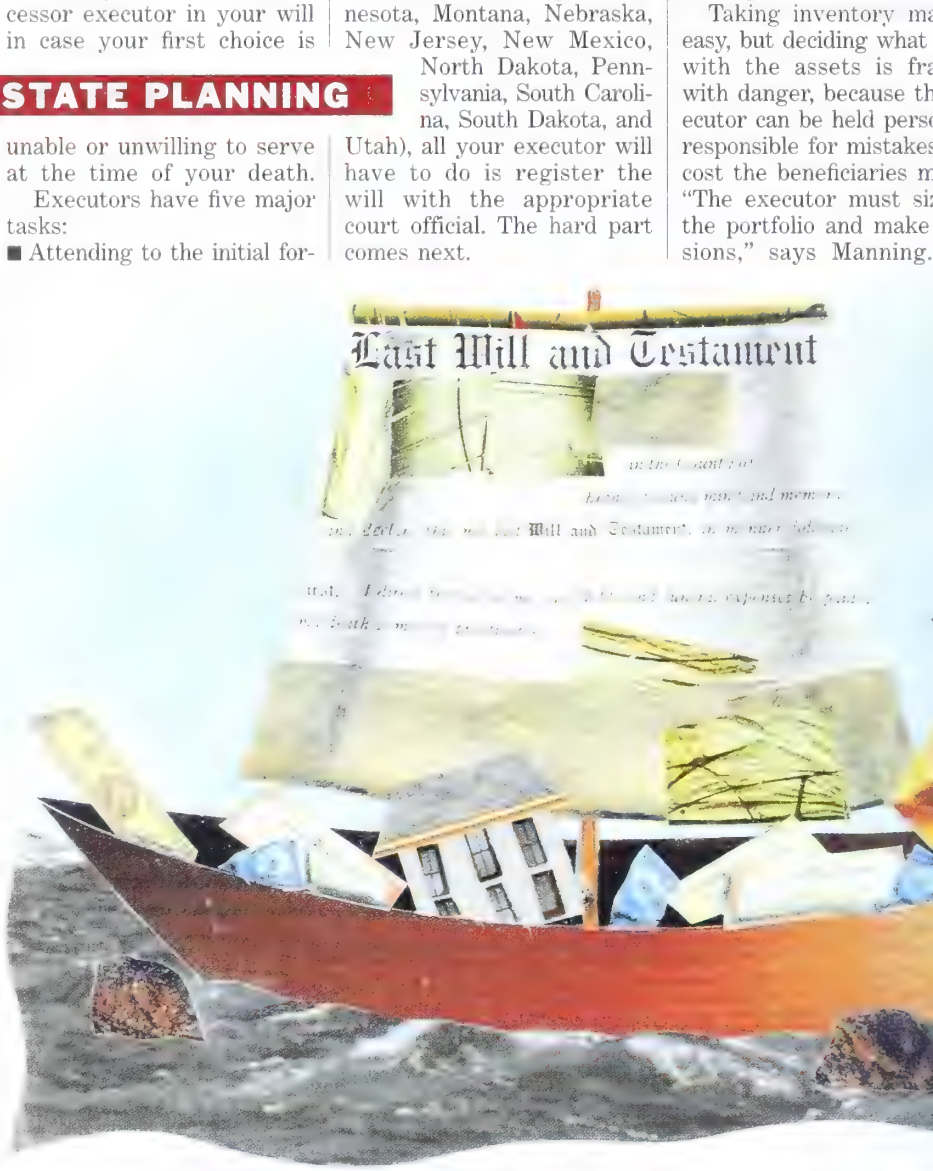
■ Attending to the initial formalities, including probating the will, obtaining a federal tax number for the estate, and hiring professional help.

Despite its bad press, probate is relatively simple. In fact, if you live in one of the 16 states that have adopted the Uniform Probate Code (Alaska, Arizona, Colorado, Idaho, Maine, Michigan, Minnesota, Montana, Nebraska, New Jersey, New Mexico, North Dakota, Pennsylvania, South Carolina, South Dakota, and Utah), all your executor will have to do is register the will with the appropriate court official. The hard part comes next.

■ Collecting assets and ing debts, a chore tha cludes securing date-of- valuations for brokerag bank accounts, arrangin praisals of real estate tangible personal prop and identifying valid tors' claims. This can t long time and cause a headaches if you own to-value assets such as estate or an art collecti

■ Managing assets, incl opening bank and brok accounts for the estate lecting life insurance an ployer benefits, retitling erty, arranging safeke of tangible personal pr ty—and most impor making investment deci

Taking inventory m easy, but deciding what with the assets is fra with danger, because th ecutor can be held pers responsible for mistakes cost the beneficiaries m "The executor must si the portfolio and make sions," says Manning.



have held on to a stock of habit or because you t want to sell and incur al-gains tax, but your ıtor must act in the best ests of your beneficiar- You could sit on an in- nent, in other words, but executor cannot.

ing tax returns and pay- axes, which can mean leting federal and state ne tax returns for the idual and for the estate , plus a federal estate eturn (where an estate eds $600,000, even if no s due) and state inheri- or estate tax returns.

sing out the estate, dis- ting the assets, and ng a final accounting to the beneficiaries and the s. Distributions can be- efore the estate is set- but your executor must enough in reserve to e any final tax bills or claims against the es- Figuring out how much ough can be tricky be- , although a response is often received within a year, the government has three years from the filing date (nine months after death) to audit the estate tax return.

If you have a modest estate or if all your assets consist of easily valued stocks and bonds, a reliable family member may be able to do the job. On the other hand, if you own a closely held business, real estate, or limited partnerships, you need someone with financial savvy. It's important to value such assets properly, says Howard Gladston, head of trusts and estates at Ballon Stoll Bader & Nadler in New York, "so they have as low a value as possible for IRS purposes, yet a realistic value that will pass audit."

DOWNSIDE. Financial skills can be hired, of course, but at the very least you'll want your executor to be able to evaluate advice intelligently. Some people turn to professionals, naming a bank or trust company as executor. While a well-chosen institutional executor can offer an array of services, says Manning, "the downside that most people complain about with corporate fiduciaries is they change personnel a lot. It can be unsettling to a family to work one day with Harry, another with Elizabeth, then she leaves, and you're left with George."

Another problem with a large institutional executor may be that there is no one decision-maker. Everything has to go to committee. "How much leeway is given officers differs from institution to institution," Manning notes, "but institutions are generally defensive about investments and concerned about the liability in holding on to risky assets." An individual, he believes, is more likely to go along with your wishes.

An institutional executor makes the most sense with very large estates, says Gladston. "Most banks and trust companies really aren't interested unless an estate is a few million dollars."

Nonetheless, it may be wise to use an institutional executor if your will provides for a long-term trust. William Knox, an attorney with Neuberger & Berman Trust Co. in New York, points out that "some banks won't serve as trustees of estates that weren't professionally handled. They feel something might be overlooked, something might blow up."

One solution is to name an individual and a bank as co-executors. Gladston likes this approach because "it ensures the personal touch, while making sure things get done in a timely fashion. Otherwise, with a big institution, time limits can get lost in the shuffle."

FINAL SAY. Another possibility: Select an individual and give him or her 60 days or so to choose a professional co-executor. This gives the individual the chance to talk to different banks to find a compatible institution. You can ensure that a decision is made by stating in your will: "If you don't act within 60 days, then bank X will be your co-executor." When naming co-executors, you can give one the final say on decisions, if you like, to avoid inaction because of split opinions.

What does your executor get out of all this, besides the satisfaction of a job well done? States have different rules about executor compensation, often based on a percentage of assets in the estate. In New York, for example, the fee ranges from 5% on an estate of $100,000 or less to $134,000 plus 2% of anything over $5 million.

Don't assume that a beneficiary acting as executor should forgo a fee. Although executors must pay income tax on their compensation, it can make good financial sense to remove the executor's fee from an estate that is subject to hefty federal estate tax. With the highest income tax rate at 39.6% and the highest federal estate tax rate at 55%, the 15 percentage-point spread can be money in the pocket of someone who is serving both as beneficiary and executor. *Grace W. Weinstein*

What to Consider When Choosing an Executor

CHECK YOUR STATE'S RULES before you write your will. In Florida, for example, an executor who is not a blood relative must be a state resident.

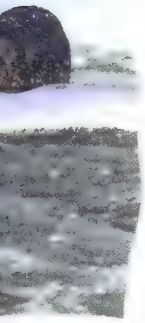
NAME A SUCCESSOR EXECUTOR IN YOUR WILL in case your first choice is unable or unwilling to serve at the time of your death.

THINK ABOUT NAMING CO-EXECUTORS, either two individuals or an individual and an institution, to share the responsibility. You can give one the final say on decisions, if you like, to avoid inaction due to split opinions.

CONSIDER COMPETENCE BEFORE COMPENSATION. It's penny-wise and pound-foolish to name an executor simply because he or she declines to accept a fee.

MAKE YOUR EXECUTOR'S JOB EASIER by leaving well-organized records.

DATA BUSINESS WEEK



This time-consuming responsibility can easily last from 18 months to three years

FOCUS ON YOUR OWN GOALS, NOT THE BULLS AND BEARS

SMART MONEY

If you've been obsessing over whether to plunge into the long-standing bull market, the Dow's precipitous Mar. 8 drop might have made you glad you waited to buy. Then again, it might have enhanced your paralysis by making you fearful of even further declines. Either way, you'd be wrong: If you're making a decision about investing in stocks, you need to disregard the market level on any given day and focus on your longer-range financial goals.

Granted, that's a tough suggestion to follow. With the Standard & Poor's 500-stock index up nearly 38% in 1995 and the market's rampant volatility this year, it's no wonder many people are hesitant about dumping money into stocks. However, "investing should never be a function of how high or low the market is," says Larry Elkin, an accountant and financial planner in Hastings-on-Hudson, N. Y. Experts agree that despite market behavior, it's important to be disciplined about investing.

Why? Because it's impossible to time the market's ups and downs. Consider this: If you invested $1 in the S&P in 1926, you would have earned $1,114 by yearend 1995 (intermediate-term government bonds would have returned $36). But if you subtract the best 35 months during those 69 years, your investment would only be worth $10.16, according to Ibbotson Associates, a consulting firm. "Blink, and the best time to invest in the market is gone," says Robert Phillips, an Indianapolis money manager.

That's why, if you have money destined for the stock market, many financial advisers would recommend simply dropping it in now. "There is no benefit to dollar cost averaging vs. investing in a lump sum," argues Ibbotson consultant Derek Sasveld. Others would say, however, that spreading out your investment payments over a period of time is useful as a psychological motivator for a reluctant investor or as a direct deposit from a monthly paycheck.

This assumes you already have a portfolio in place. If you don't, then consider your long-term financial goals and the returns you need to achieve them. Would you like the money in six years, to send a child to college, or in 12 years, to live off of when you retire? With these questions answered, figure out your risk tolerance. "How much of a drop in the market can you accept before you panic and sell?" asks New York financial planner Robert Clarfeld.

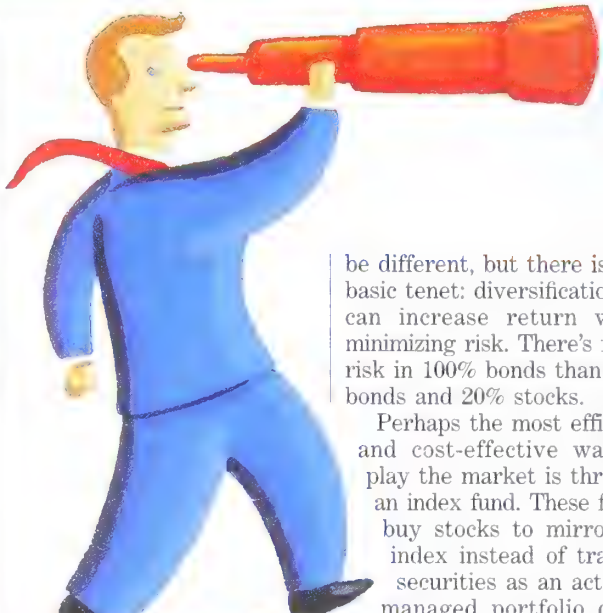
GAIN AND PAIN. To determine your pain threshold, it helps to know what your chances are of losing money if the market plummets. For stocks invested in the S&P for one year, you have a 27% chance of losing money. That drops to 10% when you stay invested for five years and 4% with a 10-year time period. After 12 years, your chances of suffering a loss falls to zero, says Ibbotson. You should be able to ride out a crash. In all but 2 of the 12 bear markets since 1948, the market more than made up for its loss in the first year following a bottom.

Armed with historical data, personal goals and risk tolerance, it's time to devise an asset-allocation plan. Naturally, everyone's portfolio will be different, but there is basic tenet: diversificatio can increase return w minimizing risk. There's risk in 100% bonds than bonds and 20% stocks.

Perhaps the most effi and cost-effective wa play the market is thr an index fund. These f buy stocks to mirro index instead of tra securities as an act managed portfolio Rather than beat the ma index funds try to repl it. They make sense w you consider that only of the diversified equity f beat the S&P last year cording to Morningstar fund-research firm. W more, "index funds add because they have lowe penses," says Chicago f cial planner Mark Bell. Vanguard S&P 500 index has an expense ratio 0.19%, compared with for all large-cap stock fu

HAPPY UNION. For inves who want to take a ch with stock picking, Mar Acuff, Smith Barney's folio strategist, sees some portunity in techno stocks, specifically, comp with well-established p ucts and services that port the convergence of cable and telephone in tries. He doesn't think time to move entirely cyclical stocks as a pla an improving economy think a blend of growth cyclical stocks are a bet," says Acuff. Util should be avoided, he gests, because of slow gr in that sector.

Remember, if you k your objectives and are fortable with the down risk, then when to in shouldn't be a questio your mind. *Toddi Ga*

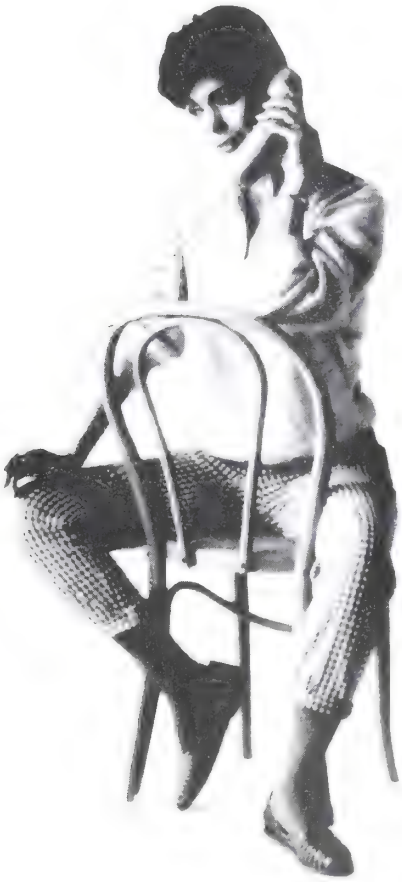


Why It Pays to Stick It Out with Stocks

BEAR MARKET	LENGTH IN MONTHS	TOTAL RETURN FOR THE PERIOD (S&P 500)	TOTAL RETURN FIRST YEAR AFTER BOTTOM
DEC. '68 TO JUNE '70	19	–29.3%	41.9%
JAN. '73 TO SEPT. '74	21	–42.6	38.1
JAN. '77 TO FEB. '78	14	–14.1	16.6
DEC. '80 TO JULY '82	20	–16.9	59.4
SEPT. '87 TO NOV. '87	3	–29.5	23.2
JULY '90 TO OCT. '90	4	–14.1	33.5
AVERAGE	13.5	–24.4	35.45

DATA SANFORD C. BERNSTEIN & CO., IBBOTSON ASSOCIATES

Mom hasn't responded to me in weeks.



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—Morningstar Variable Annuities/Life (1/31/96)

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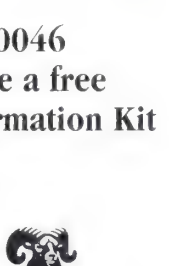

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ILDING BETTER MOUSE

PC buyers to ne the key fea- s they would most nt on a new op computer, and they'll y mention a swift micro- ssor, generous supply of om-access memory), spacious hard drive, harp color monitor. Far the wish list—if it s up at all—is a souped- ouse. Indeed, it's hard to er excitement over a ing device. Just about y new PC comes ped with a mouse from osoft, Logitech, Ken- on, or some no-name l. By now, the little de- that choreographs the ing cursor has become m.

t heavy PC users should ake these computer crit- or granted, especially as pecies proliferates. The l incorporates the con- onal mouse, cordless trackballs (basically ationary upside-down e), and finger-controlled pads. There is even thing for the smallest y members: Microsoft ght out EasyBall last a huge, yellow trackball l at 2- to 6-year-olds.

B SUPPORT. With in- ed attention being paid petitive stress injuries of the hand and wrist, companies are trying sign better-fitting, ergo- ally correct mouse prod- The new Contour Mouse Contour Design in San on, Calif., is available in sizes: a large version for individuals with s over 7½ inches long the first crease of the to the tip of the middle r), a smaller model for s less than 6¾ inches, midsize mouse that fits s in between. Contour claims the precise fit gives the hand and fingers better support. Among the other ergonomic features are three elevated buttons shaped to reduce excessive strain on the fingers, a thumb support on the side, and a hump on which the palm can rest.

"You can't run in the Olympics in one-size-fits-all shoes," and you shouldn't have to conform to a particular mouse, maintains Dr. Emil Pascarelli, a professor of clinical medicine at Columbia University's College of Physicians & Surgeons, and co-author with Deborah Quilter of *Repetitive Strain Injury: A Computer Users Guide* (John Wiley & Sons, $14.95). Pascarelli says buyers should try out several mice in the computer store. See what feels right, he says, and don't hesitate to return a mouse if any discomfort ensues.

Placement of a mouse is also critical. Pascarelli believes a pointing device should be situated as close as possible to the PC keyboard, and at the same level. Both the Cirque GlidePoint and the Synaptics Touché Touch Pad, which are thin, stationary devices slightly larger than a floppy disk, fit neatly next to the keyboard. You gently slide a single finger across a small smooth surface area, and the cursor moves in tandem.

COMPUTERS

The touch pads require an adjustment period. To select an object—the equivalent of a left click on a regular mouse—you tap a finger once on the Cirque or Touché surface area. Two taps equal a double click. To "click and drag," you tap twice but hold the finger down and glide it along the surface on the second tap. Folks who would rather avoid the fingertip tap dance can press real mechanical buttons next to the smooth surface.

'ERASER HEAD.' Fingertips still do most of the work with Interlink Electronics' new DeskStick, a contraption that resembles a wide-bodied mouse but stays in place like a trackball. People place their palms on the top and extend an index finger to control a tiny, pressure-sensitive VersaPoint "eraser-head" pointing device, such as the one found on many notebook computers. Two large buttons on either side of the eraser head let users perform the requisite clicking functions, though I found it difficult to drag.

Interlink also recently unveiled a product for people who want to put distance between themselves and their PC. Users aim the RemotePointPlus cordless mouse at an infrared, battery-powered receiver hooked up to the serial port on the back of the computer—in fact, it must be installed in addition to a regular mouse.

The handheld device has a range of 40 feet and requires a clear line of sight to the receiver. On the remote itself is a 360-degree cursor control button, plus extra programmable buttons that can be used to launch programs, save files, and so on. As such, RemotePoint Plus is useful for anyone giving a presentation or for just kicking back and surfing the World Wide Web. This is one mouse you can get excited about—even if the cat could care less.

Edward Baig

NEW BREED: CONTOUR, GLIDEPOINT, AND REMOTEPOINT

The Fine Points of Pointing Devices

PRODUCT/ COMPANY	COMMENTS	PRICE
CIRQUE GLIDEPOINT DESKTOP CIRQUE	Finger movements control cursor via this touch-sensitive pad.	$89
CONTOUR MOUSE CONTOUR DESIGN	Three-button mouse comes in small, medium, and large sizes.	$80
REMOTEPOINTPLUS INTERLINK ELECTRONICS	Cordless remote mouse has 40-foot range. Good choice for presentations.	$200
TOUCHE TOUCH PAD TOUCHE TECHNOLOGIES	Finger controlled. Programmable buttons let users adjust touch sensitivity.	$60

DATA BUSINESS WEEK

THE PLAYERS
CHAMPIONSHIP

Fifteen years ago, in March of 1982, THE PLAYERS Championship made its debut at its permanent home, the Stadium Course at the TPC at Sawgrass. The crown jewel of the PGA TOUR had been unveiled to the golfing world, which looked on in wonder.

Designed by renowned golf course architect Pete Dye, the 415-acre, par-72 Tournament Players Club at Sawgrass had opened for business two years before. With THE PLAYERS Championship, it created an impact on the game that continues to be felt today.

Beginning in 1977, the sports world's focus turned each March to Ponte Vedra Beach, FL, which then had become home to THE PLAYERS Championship. Starting in 1982, that focus shifted to the Stadium Course.

This year, during the week of March 25-31, the strongest field in golf tees it up for the 15th consecutive year at the venue constructed specifically for THE PLAYERS Championship. Defending his title will be Lee Janzen.

"Lee Janzen's victory last year over a golf course prepared to challenge such a strong field was a masterful accomplishment," said PGA TOUR Commissioner Tim Finchem. "It was the latest intriguing chapter in the storied history of THE PLAYERS Championship and the Stadium Course.

"We look for more suspense this year, followed by the crowning of yet another worthy champion as THE PLAYERS Championship continues to earn worldwide recognition as one of golf's premier events."

Last year, at age 30, Janzen edged Bernhard Langer by one stroke and topped Corey Pavin, Gene Sauers and Payne Stewart by two in winning his fifth PGA TOUR title. Later in the year, the winner of the 1993 U.S. Open added TOUR victories Nos. 6 and 7 at the Kemper Open and Sprint International.

Janzen's victory celebration didn't come close to matching that at the TPC at Sawgrass inaugural. Everything tied to the unveiling came off as planned – with the notable exception of what happened at the very end.

THE PLAYERS Championship Television Schedule

Thursday, March 28
First Round of Competition
ESPN
10 a.m.-1 p.m. and 3-6 p.m. EST

Friday, March 29
Second Round of Competition
ESPN
10 a.m.-1 p.m. and 3-6 p.m. EST

Saturday, March 30
Third Round of Competition
NBC Sports
2-6 p.m. EST

Sunday, March 31
Final Round of Competition
2:30-6 p.m. EST

To the amazement of everyone, Jerry Pate brated his two-stroke victory over Brad Brya and Scott Simpson by taking then-Commissio Deane Beman and architect Dye for a swim the pond adjoining the 18th green during th award ceremony.

Beman, whom Finchem succeeded as the TOUR's third Commissioner on June 1, 19 is credited with many of the ideas for THE PLAYERS Championship and the course tha is its home. Beman envisioned a course, owne

Lee Janze

and operated by the TOUR and its members where fans would enjoy full access and unob structed views at the tournament.

"I felt the TOUR needed a permanent sit and roots somewhere," Beman said. "Second I felt the way to build THE PLAYERS Chan onship into the TOUR's most important tou nament was to own and control our own cou and build a facility that was better than wh anyone else had."

What evolved was a venue with startling design features. Spectator mounds, some as h as 30 feet, provided thousands of spectators a "front-row" seat to the action. And natura waste areas reduced the area requiring main nance to 45 of the 415-acre total.

Recognized throughout th world is the signature hole of Dye-Beman creation, the par 17th hole with its island gree Not a long hole at 132 yards from the back tee, it has drav praise and ire from professio and amateur alike.

The design of the course, t consistently outstanding field and the prestige of winning THE PLAYERS Championsh and its 10-year exemption hav combined to produce many memorable moments.

Last year, Janzen opened solidly in windy conditions, posting a 3-under-par 69 that had him three strokes off

s first-round lead. A two-over 74 dropped
ne more behind Pavin, now joined on top
ers at 5-under 139.
vin, destined to win his own U.S. Open in
continued to share the lead through three
s. But another Janzen 69 brought him to
one stroke of Pavin and Langer, both at
er-par 211, after 54 holes.
nday dawned as Lee Janzen's day. By the
hole the outright lead was his. After his
birdie of the round on 16, a marvelous up-
own on 17 and five-foot putt on 18, the
000 winner's check also was his.
th earnings of $1,378,966 in 1995, Janzen
ed third on the Official Money List to
PLAYERS champion Greg Norman's

PLAYERS Championship

a CC, Atlanta, GA	
	Jack Nicklaus
ial CC, Fort Worth, TX	
	Al Geiberger
ary G&CC, Lauderhill, FL	
	Jack Nicklaus
ass CC, Ponte Vedra Beach, FL	
	Mark Hayes
	Jack Nicklaus
	Lanny Wadkins
	Lee Trevino
	Raymond Floyd*
t Sawgrass, Ponte Vedra Beach, FL	
	Jerry Pate
	Hal Sutton
	Fred Couples
	Calvin Peete
	John Mahaffey
	Sandy Lyle*
	Mark McCumber
	Tom Kite
	Jodie Mudd
	Steve Elkington
	Davis Love III
	Nick Price
	Greg Norman
	Lee Janzen

playoff

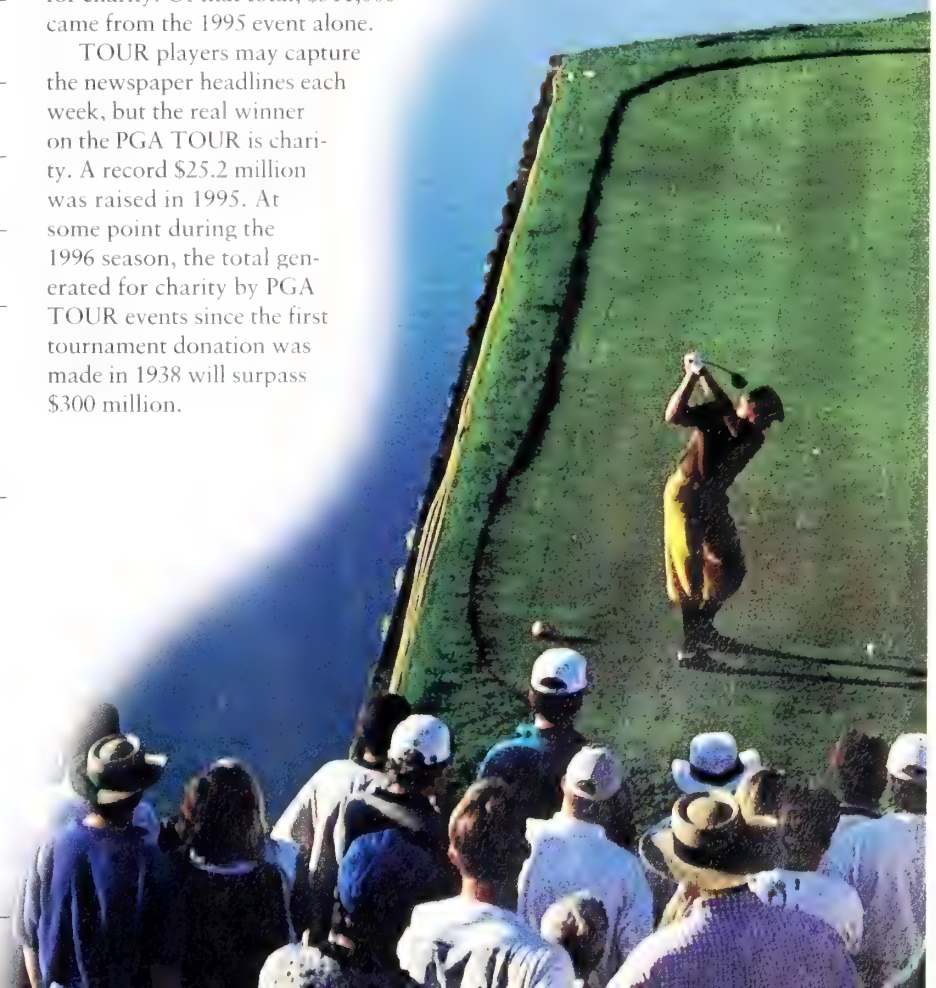
TOUR-record $1,654,959. But Lee's PLAYERS payday certainly gave him an early leg-up in last year's money race.

Another $540,000 first-place check is up for grabs the last week in March. Who will be the 15th winner at the TPC at Sawgrass? And no one has won twice since THE PLAYERS Championship moved to Ponte Vedra Beach in 1977. Might that happen this year?

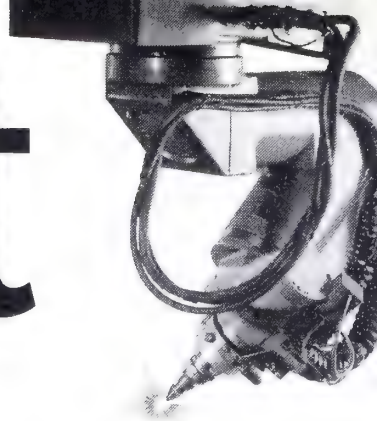
No matter who captures the 1996 PLAYERS Championship, Northeast Florida charities will be the beneficiaries.

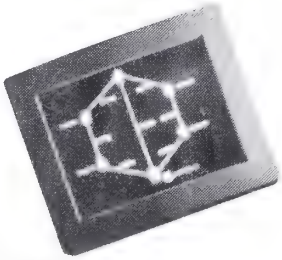
Since 1977, THE PLAYERS has generated more than $6.8 million for charity. Of that total, $511,000 came from the 1995 event alone.

TOUR players may capture the newspaper headlines each week, but the real winner on the PGA TOUR is charity. A record $25.2 million was raised in 1995. At some point during the 1996 season, the total generated for charity by PGA TOUR events since the first tournament donation was made in 1938 will surpass $300 million.



Meet the future.





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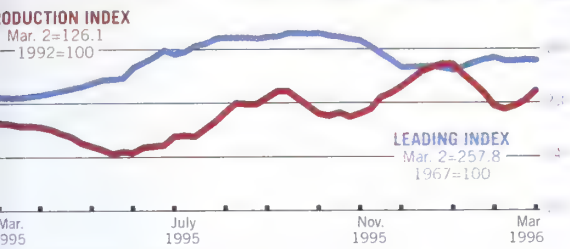
ısiness Week Index

DUCTION AND LEADING INDEXES

ge from last week: 0.7%
ge from last year: 2.3%



es are 4-week moving averages

oduction index increased during the week ended Mar. 2, but the index calculation of the four-week moving average dropped slightly, to 127.1, from ed 127.2. A drop in seasonally adjusted output of autos led the decline. **ading index** fell in the latest week. The unaveraged index dropped to from 257.8. A drop in stock prices and higher bond yields contributed slower reading of future economic growth

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DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (3/8) S&P 500	649.15	645.45	33.9
DRATE BOND YIELD, Aaa (3/8)	7.21%	7.20%	-12.3
TRIAL MATERIALS PRICES (3/8)	108.8	110.6	-4.2
IESS FAILURES (3/1)	326	191	12.8
ESTATE LOANS (2/28) billions	$505.2	$504.4	7.9
Y SUPPLY, M2 (2/26) billions	$3,673.0	$3,665.1r	2.4
L CLAIMS, UNEMPLOYMENT (2/24) thous.	357	382	7.5

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans.

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
IAL FUNDS (3/12)	5.25%	5.13%	5.94%
IERCIAL PAPER (3/13) 3-month	5.34	5.19	6.15
FICATES OF DEPOSIT (3/13) 3-month	5.30	5.17	6.14
MORTGAGE (3/8) 30-year	7.63	7.69	8.86
STABLE MORTGAGE (3/8) one-year	5.48	5.50	6.53
E (3/13)	8.25	8.25	9.00

es: Federal Reserve, HSH Associates, Reuters Holdings PLC

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/9) thous. of net tons	2,101	2,085#	4.4
AUTOS (3/9) units	114,593	123,394r#	-23.2
TRUCKS (3/9) units	129,517	126,824r#	5.7
ELECTRIC POWER (3/9) millions of kilowatt-hrs.	62,056	60,553#	6.4
CRUDE-OIL REFINING (3/9) thous. of bbl./day	13,647	13,794#	-0.3
COAL (3/2) thous. of net tons	21,615#	21,246	5.0
PAPERBOARD (3/2) thous. of tons	NA#	NA	NA
PAPER (3/2) thous. of tons	NA#	NA	NA
LUMBER (3/2) millions of ft.	440.1#	450.2	2.1
RAIL FREIGHT (3/2) billions of ton-miles	25.9#	25.2	2.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/13) $/troy oz.	396.500	393.600	3.3
STEEL SCRAP (3/12) #1 heavy, $/ton	139.00	144.50	1.1
COPPER (3/9) ¢/lb	122.2	120.0	-13.2
ALUMINUM (3/9) ¢/lb	75.3	74.3	-16.4
COTTON (3/9) strict low middling 1-1/16 in., ¢/lb	79.85	80.28	25.8
OIL (3/12) $/bbl.	20.46	19.54	14.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/13)	105.34	105.32	89.29
GERMAN MARK (3/13)	1.47	1.48	1.39
BRITISH POUND (3/13)	1.52	1.53	1.59
FRENCH FRANC (3/13)	5.04	5.05	4.96
ITALIAN LIRA (3/13)	1564.8	1557.1	1701.5
CANADIAN DOLLAR (3/13)	1.37	1.37	1.42
MEXICAN PESO (3/13)	7.590	7.593	7.120

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

NG STARTS

ay, Mar. 19, 8:30 a.m.EST ▶ Housing probably fell back to an annual rate million in February, according to the n forecast of economists surveyed by ternational, one of The McGraw-Hill nies. Starts posted an unexpected January, rising 4.4%, to a 1.45 mil-ace. The recent rise in mortgage rates egin to hold back housing. However, 2% rise in new homes in January sts buyers may have rushed in early to lock in lower rates.

L SALES

esday, Mar. 20, 8:30 a.m.EST ▶ sales likely increased a solid 0.9% in February, says the revised MMS forecast. That's suggested by the steep advance in motor vehicle sales and increases reported in the weekly surveys of other retailers. Excluding cars, sales probably rose 0.5% last month. In January, the blizzard kept many shoppers at home: Total sales fell 0.3% while nonauto receipts were flat.

BUSINESS INVENTORIES

Thursday, Mar. 21, 10 a.m.EST ▶ Inventories at manufacturers, wholesalers, and retailers likely increased by 0.4% in January, after falling 0.5% in December. Factories have already reported a 0.7% gain in their stock levels, in part because the blizzard prevented goods from being shipped out. Business sales probably fell 0.8% in January, reversing the 1% gain in December. Factory sales were down 0.9% in January, and retail sales slipped.

FEDERAL BUDGET

Thursday, Mar. 21, 2 p.m.EST ▶ The Treasury Dept. is expected to report a $45 billion deficit for February, forecasts the MMS report. That's bigger than the $38.4 billion recorded in February, 1995. But the federal government is playing catch-up in its outlays after the second shutdown kept workers at home. Also, tax refunds are trailing behind 1995's pace. Still, the federal budget is on track to total about $150 billion in this fiscal year.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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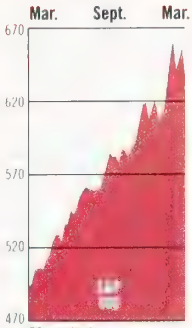
vestment Figures of the Week

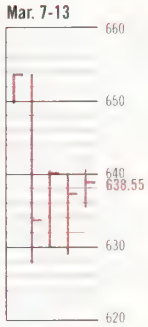
NTARY

k market is desperately adjust to a stronger and higher interest rates. on 30-year Treasuries the highest level since ust, and stocks tumbled. the Dow industrials were the week by only 1.1, the ndexes suffered more, S&P 500 falling by more . Some foreign bourses ered. Tokyo sank to its vel of the year, while g dropped 10%—the re- oncerns about Chinese exercises off Taiwan.

STOCKS

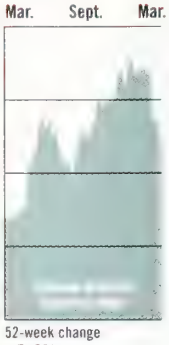


52-week change
+29.8%



1-week change
−2.1%

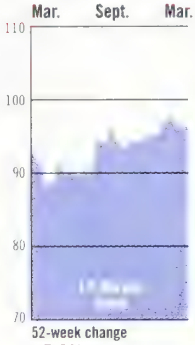
BONDS



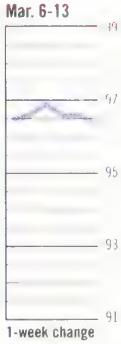
52-week change
+5.6%

1-week change
−2.7%

THE DOLLAR



52-week change
+5.0%



1-week change
−0.1%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	5568.7	−1.1	37.9
COMPANIES (S&P MidCap Index)	227.4	−1.3	25.9
OMPANIES (Russell 2000)	323.5	−1.1	25.7
PANIES (Russell 3000)	364.3	−2.0	29.7

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3640.3	−3.2	19.5
IKKEI INDEX)	19,734.7	−2.5	18.4
(TSE COMPOSITE)	4948.8	−0.5	17.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.12%	5.02%	5.89%
30-YEAR TREASURY BOND YIELD	6.68%	6.46%	7.36%
S&P 500 DIVIDEND YIELD	2.19%	2.14%	2.68%
S&P 500 PRICE/EARNINGS RATIO	18.6	19.0	16.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	589.6	586.7	Positive
Stocks above 200-day moving average	63.0%	71.0%r	Neutral
Speculative sentiment: Put/call ratio	0.77	0.56r	Positive
Insider sentiment: Vickers sell/buy ratio	2.00	1.97	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
IALTY APPAREL RETAILERS	15.3	37.4	CHARMING SHOPPES	39.8	−8.1	4 15/16
INE TOOLS	13.8	18.8	GIDDINGS & LEWIS	14.6	2.2	17 1/8
S	12.1	48.7	NIKE	13.2	99.7	77 1/4
RTMENT STORES	9.8	33.0	FEDERATED DEPARTMENT STORES	19.1	55.8	33 1/2
NES	8.5	56.2	SOUTHWEST AIRLINES	11.7	78.4	31

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
ONAL TELEPHONE COMPANIES	15.2	20.6	AMERITECH	−17.9	23.8	53 1/4
RUMENTATION	−14.7	20.1	TEKTRONIX	−28.3	0.8	32 1/4
TRIC COMPANIES	−9.7	13.4	NIAGARA MOHAWK POWER	−19.4	−53.0	6 3/4
MERCIAL SERVICES	−8.9	18.9	CUC INTERNATIONAL	−22.6	28.4	30 7/8
NCIAL SERVICES	−8.1	45.6	FEDERAL NATL. MORTGAGE ASSN.	−12.4	62.9	31

UAL FUNDS

MORNINGSTAR INC

RS

ek total return	%
TREND GOLD	24.4
ICAN HERITAGE	12.7
SCO STRATEGIC GOLD	7.2
k total return	**%**
S	74.0
PRECIOUS METALS A	72.3
SCO STRATEGIC GOLD	70.6

LAGGARDS

Four-week total return	%
SMITH BARNEY TELECOMM. INCOME	−12.3
SELIGMAN COMMUNICATIONS & INFORM. D	−10.2
LEXINGTON STRATEGIC INVESTMENTS	−10.0
52-week total return	**%**
STEADMAN TECHNOLOGY GROWTH	-24.8
STEADMAN AMERICAN INDUSTRY	-22.1
EV MARATHON GREATER INDIA	-20.2

ATIVE PORTFOLIOS

DREMCBRAW HILL

mounts represent the value of $10,000 d one year ago portfolio

tages indicate y total returns

U.S. stocks
$13,271
−2.85%

Foreign stocks
$11,871
−1.95%

Treasury bonds
$11,641
−3.38%

Money market fund
$10,557
+0.11%

Gold
$10,167
−0.53%

on this page are as of market close Wednesday, Mar. 13, 1996, unless otherwise in- Industry groups include S&P 500 companies only; performance and share prices are as of market close Mar. 12. Mutual fund returns are as of Mar. 8. Relative portfolios are valued as of Mar. 12. A more detailed explanation of this page is available on request. r=revised

HOW TO DEFUSE THE TAIWAN CRISIS

The Pacific Century has dawned early in Asia, with China flexing its muscles years before anyone anticipated. By launching military exercises designed to bully voters in Taiwan's first free presidential election, China is redefining the Asian landscape. Determined to thwart the island's feint toward independence, China's intimidation tactics are rattling the political stability that has shaped the region's economic prosperity. Southeast Asian nations, with their own territorial disputes with China, are on edge. Japan, which is banking much of its industrial future on low-cost production in Asia, is worried. Most important, the U.S. is being thrust into a pivotal—and dangerous—central role in the Pacific. None other than Singapore's Lee Kuan Yew believes America alone can act as a counterweight to China in the changing Asian balance of power.

The paradigm shift in the Pacific could mark the end of the moderate Deng Xiaoping era during which U.S.-China relations were increasingly defined by trade and investments. Thanks to Washington bungling in allowing Taiwanese President Lee Teng-hui into the U.S., Chinese moderates are now discredited. Hard-liners, including the People's Liberation Army, are in charge of foreign policy. Jiang Zemin, engaged in a leadership struggle, cannot dominate the PLA the way Deng could, and the military's power has grown. The PLA, in charge of protecting China's sovereignty, decided to shoot missiles near Taiwan's ports, causing fear and a run on the currency.

Asian leaders now must wonder about China's inten China claims territory that Malaysia, Brunei, Vietnam, an Philippines believe is theirs. Will Beijing decide that th puted islands and oil fields also involve national sovere and are a matter for the PLA? Southeast Asia, once sole cused on economic growth, is now in the grip of an arms After this episode with Taiwan, it can only quicken.

The U.S. policy of strategic ambiguity no longer w Washington must make crystal clear to China that wh still adheres to a one-China policy, it cannot allow the r of free-market Confucian democracy to be conquere force. It must, at the same time, assure Beijing that it wi recognize the de jure independence of Taiwan. As a c Washington should offer China entry into the World Trad ganization, with the proviso that it bring its economic po up to developed-country standards in two years. Fi face-to-face talks between President Clinton and Jiang Z should be encouraged. The talks should take place w the context of a Shanghai II conference that would o U.S.-China relations and replace the Shanghai commu signed in 1972 by Zhou Enlai and President Nixon.

There is no cushion of goodwill left in Washingto China. Ditto for the U.S. in Beijing. This serious situ must be clarified at once, and steps must be taken to re U.S.-China policy back on economic growth, not militar fairs. Both sides must act with caution and restraint.

THE BUDGET IS STILL THE NO. 1 PRIORITY

Low interest rates are the sweet elixir of economic growth. They do magical things, such as promote capital investment, new jobs, and higher stock prices. Low rates make possible the stuff of the American Dream—home ownership.

Even as the U.S. wrestles with economic anxiety, home ownership is taking off, reversing the calamitous decline of the 1980s. Home buying has been on the upswing bolstered by minorities and immigrants. But the stronger housing market is threatened by the recent run-up in rates. Furthermore, the market is toppy because stocks are facing stiff competition from higher-yielding bonds. Those higher rates will almost cer- ainly crimp corporate earnings, further depressing equities. ho's to blame? A few fingers point to the hedge-fund nd Japanese banks that played a global yield-curve ga January, they borrowed money in yen in Japan, wher rates are 1%, and bought U.S. Treasuries in dollars at ing the profit. Then the Japanese economy began to sh of recovery, there was talk of the Bank of Japan hiking and the hedge funds bailed out. U.S. bonds cratered, long-term rates jumping to 6.7%.

But it is Wash that is undermining the fundamentals. This was the year es were supposed to fall, thanks to a balanced-budget deal. Amazingly, the politicians flubb Then came the primaries. One Republican ran as a flat- saying deficits didn't matter. Another ran as an anti-big- ness protectionist, with tariff policies that would raise inf and rates. The result? Confusion in policy and volatility i markets, with stocks bouncing around and bonds falling bond vigilantes, happy to see fiscal discipline in Washi last year, don't see any now. So they want an extra pre and a big one. At 6.7%, 30-year bonds are 4.7% above tion, as measured by the consumption price deflator, wh down to a mere 2%. This is nearly twice the historic sp

The budget deficit is one reason for our underachi economy, where growth rates rarely rise above 2% to 2% deficit deal would allow the U.S. to grow faster, prov jobs for the young and their downsized parents.

That's why the emergence of Bob Dole as the likely publican candidate could be good news. Dole has been ag deficit spending for most of his career. In fact, Dole ma ready have emerged from the primaries with enough clo reach a budget deal with President Clinton before Nove That would enhance the stature of both candidates— bring a smile to the faces of stockholders and home bu

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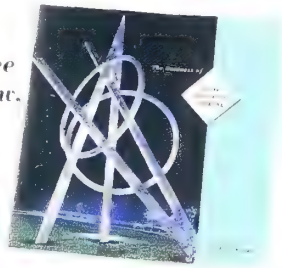

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guage. It's got people
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Together with our European partners, we at Deutsche Telekom have created the GSM standard for digital mobile communications. It marks a milestone on the road to improved international understanding, a landmark pointing the way to guaranteed quality, coverage and reliability of transmission. GSM is the key to true world mobile communications.

European initiative for the digital future of the world.
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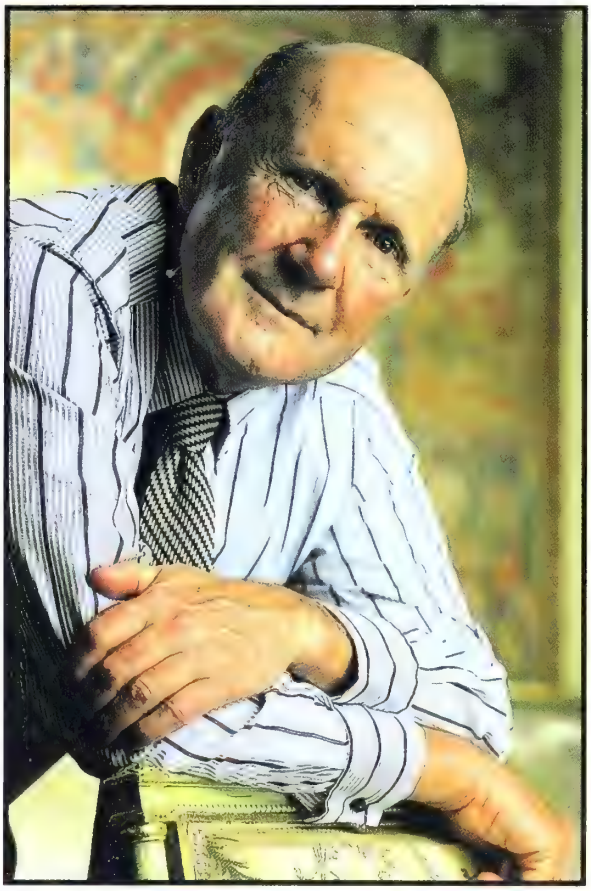
THE FALL OF THE WIZARD OF WALL STREET



Julian Robertson built the "Super Bowl team" of investing. So why has his once-magnificent record turned sour? PAGE 70

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APRIL 1, 1996

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Paths not ofte
taken, from th
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COVER STORY

FALLEN WIZARD
Julian Robertson built the investment world's most talented team—and took the Street by storm. Then he lost his magic touch
page 70

Cover Story

70 THE FALL OF THE WIZARD
No one could touch Tiger Management. Julian Robertson, the hedge fund's mercurial founder, had assembled the brightest and best-paid team of stock-pickers on the Street. In the early '90s, Robertson was ahead of the curve on every major trend in investing—and the firm's returns were sensational. So why is Tiger suddenly on its tail?

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Farming out work is the corporate rage. But it holds pitfalls—from labor strife to phantom savings—that can cost a company dearly

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ese days, Mirage Resorts' boss is ting on entrepreneurs, takeover gets, and distressed companies

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vi quietly launches a global omotion of its dress-down duds for e office, leaving suitmakers in shreds

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has plowed $2 billion into biotech D, and it's not letting up. Soon, it ould see whether its bet will pay off

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Education is business' business

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUMNI SHABI

TALK SHOW "Berkshire is selling at a price at which Charl and I would not consider buying it."

—Berkshire Hathaway Chairman Warren Buffett on how he and Vice-Chairman Charles Munger view the ascent of the company's stock, now $33,400 per share

CRUNCH TIME

POLAROID: READY FOR A RESHOOT

WILL POLAROID DRAMATICALLY curtail its money-losing forays into high-tech imaging? That's what new Polaroid CEO Gary DiCamillo is hinting may be a key part of his plan to rejuvenate the company, whose revenues have barely grown ($1.9 billion in 1988, $2.2 billion in 1995).

To diversify beyond the mature instant-photo market, Polaroid spent hundreds of millions in recent years to develop high-resolution imaging products for the medical and graphic-arts industries, plus digital photographic gear. These ventures lost $190 million last year, a big element in the company's $140 million 1995 net loss.

DiCAMILLO: *High-tech woes*

Even though projected 1996 losses in the three new businesses were slashed by a third in a recent DiCamillo cost-cutting effort, he says that "isn't acceptable. I'm not going to lose $120 million a year in this." DiCamillo is reviewing whether to stay in the medical and graphics fields or seek other options—perhaps joint ventures or licensing its technology. His breakeven deadline for them: 1998.

Meanwhile, he believes there's still growth left in instant photos, mostly in Asia. But to spur U.S. sales, he has doubled ad spending, targeting younger people. The average U.S. Polaroid customer is 53. *Mark Maremont*

SLUGFESTS

MAYBE CLINTON SAW RED OVER A GREEN

PRESIDENT CLINTON IS GOING to veto the product-liability reform bill to hold down the Ralph Nader vote in California this fall. Or so charges the central Big Business lobbying group pushing for this bill, which is aimed at curbing excessive lawsuits alleging defective products.

Another reason, says Victor Schwartz, general counsel of the Product Liability Coordinating Committee, is money. Clinton got hefty campaign gifts from trial lawyers ($500,000 in 1992, and possibly a like amount this election cycle). They oppose the bill, which is expected to be approved on the Hill soon. The business lobbying group represents blue-chips ranging from TRW to Caterpillar.

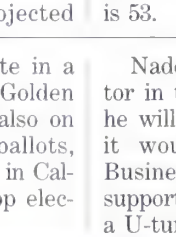
NADER: *On the ballot*

Consumer-advocate Nader is outspokenly against product-liability reform. As the Green Party's nominee, Nader gets 6% of the vote in a recent Field Poll of Golden State voters. Nader, also on two smaller states' ballots, siphons Clinton's votes in California, the nation's top electoral-vote (54) prize.

Nader says he isn't a factor in the veto. Clinton says he will veto the bill because it would hurt consumers. Business notes Clinton had supported reform, then made a U-turn. *Catherine Yang*

THE LIST **OSCAR POWER**

An Academy Award nomination, especially one for Best Picture, certainly puts new life into a movie's box office. The big winner, in raw dollar terms: *Sense and Sensibility*, up 10% after getting the nod. But the Emma Thompson flick, opening before Christmas, hasn't been out as long as the others. Percent-wise, the less genteel and longer-running *Braveheart* got the better Oscar bump. This Mel Gibson swordfest was re-released post-nomination and is doing more than 20 times the business it did when it left the theaters in the fall.



BRAVEHEART: *Good timing*

THE NOMINATION BUMP

BEST PICTURE NOMINEE* / STUDIO	BOX OFFICE, LAST WEEKEND, PRE-NOMINATION	BOX OFFICE, WEEKEND AVERAGE, POST-NOMINATION
SENSE AND SENSIBILITY (COLUMBIA)	$2,403,775	$2,650,626
BRAVEHEART (PARAMOUNT)	56,859**	1,219,797
THE POSTMAN (MIRAMAX)	94,791	914,306
BABE (UNIVERSAL)	202,875	809,325

* *Apollo 13* not listed; widespread release ended in late November, 1995

** From the Oct. 20–22, 1995, weekend, last in widespread release before post-nomination reissue

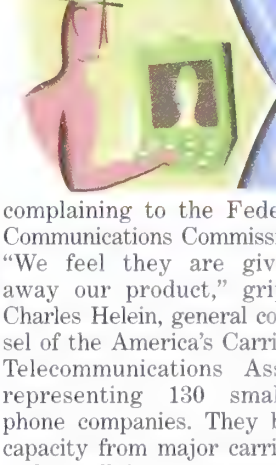
DATA: *THE HOLLYWOOD REPORTER*, BUSINESS WEEK

I-WAY PATROL

YOUR TRUE VOICE: THE INTERNET?

TELEPHONE COMPANIES A trying to squelch upstart vals using the Net to m cheap long-distance calls. Y you can talk with a farav friend via the audio com nent of your PC—and av paying standard phone ra (Downside: Calls must be p arranged.)

The telephone crowd



complaining to the Fede Communications Commiss "We feel they are giv away our product," gri Charles Helein, general co sel of the America's Carri Telecommunications As representing 130 smal phone companies. They h capacity from major carri and resell it to consume Since margins are th they're sweating. Big ca ers such as MCI and Spr haven't joined the FCC co plaint, since they make m ey carrying Net traffic a have enough call volume I-phones aren't yet a thre

To slow them down, if kill them outright, ACTA asking the FCC to regul the I-phone companies, v have 20,000-plus custome Because they're charging o for software, not actual ca VocalTech, DigiPhone, a other upstarts argue th regulation makes no sense them. An FCC decision wo come until late this year, the earliest. *Mark Leu*

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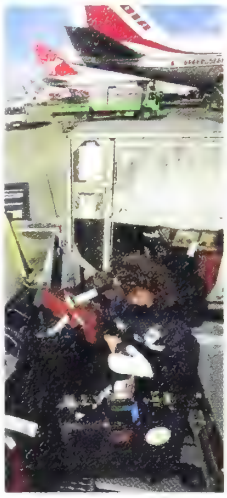
Up Front

SECURITY

SEND ME EIGHT BOMB-SNIFFERS, FAST!

THE INCREASE IN terrorist attacks has spawned a growing market for security systems. And it's not confined to foreign locales; after all, terrorists' bombs have taken lives in Oklahoma City as well as Jerusalem and London. In the U.S. alone, according to security consultants Hallcrest Systems in McLean, Va., sales of security systems—from metal detectors to electronic surveillance gear—are expected to grow some 7% a year, to $30 billion by 2000.



HEATHROW: *EGIS detection gear*

Spending on the pricey security systems is escalating even as governments around the globe slash traditional military spending. Israel's defense budget, for example, is down almost 25% from a decade ago, but the Israeli government plans to spend an extra $100 million on counterterrorism.

Small high-tech companies, rather than giant defense contractors, tend to be the winners. Thermedics of Woburn, Mass., with about $170 million in annual sales, has done well with its $250,000 EGIS bomb detector, now used at airports such as London's Heathrow. After the deadly suicide bombs in Israel in early March and February, Tel Aviv-based Magal Security Systems (1995 revenues: $18 million), whose X-ray scanners are used to check goods at Israel's borders, saw its shares soar by 43% on NASDAQ, to $4.13. Shares of Thermedics jumped 7%, to $29. *John Rossant*

DRAWN & QUARTERED

BOOMERS

DON'T TRUST ANYONE OVER 79?

BABY BOOMERS, WHO START turning 50 this year, are optimistic about the future, it turns out. An extensive new survey of the boomers' first wave—1,000 people born in 1946—shows that the reason is that they feel young.

As a median, boomers give 79 as what they consider to be the start of old age. A clear majority believe that their parents were older at 50, both physically and mentally, than they are now. But they also say they're more self-centered and less family-oriented than their moms and dads were.

The median age at which they expect to retire from their primary career is 63, although two-thirds expect to continue working in some capacity. The survey, for retirement-community developer Del Webb, didn't ask whether they will do so out of necessity, but their answers display a certain naivete. They expect to have saved a median $131,295 when they retire from their primary jobs. Says David Rhine, an executive with the BDO Seidman accounting firm: "That might last them just a few years." □

'50s FAMILY: *Optimism is back*

PRODUCT PEEK

BACK IN BUSINESS: THE VACUUM TUBE

THERE IS NOTHING more out of date than a vacuum tube, right? Not at AT&T's Kansas City Works, which is ramping up to resume production of the tubes to meet demand. Audiophiles insist that solid-state stereo can't match the tubes' sound.

ENG
Ni

Atlanta entreprene
Charles Whitener Jr.'s out
Westrex, is using the Kan
City facilities to make t
tubes exactly the way AT
used to before it discontinu
the line in 1988. He's rehir
a dozen tube-making vets.

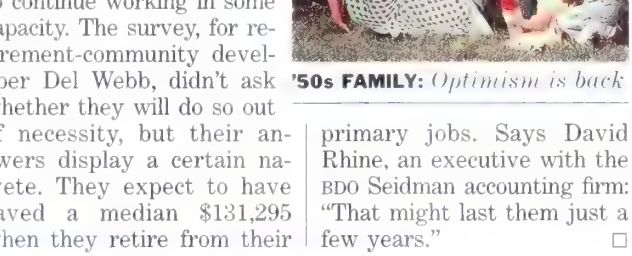
With advanced compan
only making solid-state el
tronics, the tube business l
fallen to the Russians a
Chinese. But the quality
their tubes is iffy. So an or
inal Westrex 300B tube fr
AT&T can fetch $700 and
Whitener charges $350. W
full-scale production slated
begin in July, his initial o
put (up to 30,000 a year
start) is already spoken fo

Introduced in 1937, t
Westrex 300B is an old
sign even as vacuum tub
go—and that's exactly w
audiophiles like it. The tu
had to be good. It predat
widespread use of "negat
feedback" and other mode
electronic tricks used
squelch distortion. *Peter C*

THE BIG PICTURE

PRODUCTIVITY GAP NARROWS

U.S. auto makers, using more efficient assembly methods, are reducing their Japanese rivals' big edge in worker productivity at plants in Japan. Japanese plants in North America, though, have slightly increased their narrow lead over Detroit's plants.



FOOTNOTES Gr companies that say getting rivals' privileged info is important: **86%**; those seeking to limit leaks: **72%**

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THE WINTER OF OUR ECONOMIC DISCONTENT

Your Cover Story "Economic Anxiety" (Mar. 11) purported to provide readers with a "framework for thinking about the issues—and some suggestions." Sadly, we're still waiting. The chief culprit behind working America's "economic anxiety" isn't globalization, corporate restructuring, or technological change. It's class warfare—the successful campaign of the class that owns U. S. society and holds the bulk of its financial assets against the class that doesn't.

The single most honest statement in the story's 13-odd pages was the one attributed to William Bessemen, a former employee of an office-supply firm: "People at the top are stealing from people at the bottom." And the business press has led the cheers every step of the way.

David Peterson
Evergreen Park, Ill.

Your article discussed almost every "cause" of the current economic discontent—except the role of competence, personal initiative, and individual responsibility. For two-thirds of employees, real wages are flat to down, but the other one-third are doing significantly better. They have not been economic victims of these macro forces. What are they doing differently?

Those suffering from economic anxiety tend to be passive and expect to be taken care of by larger institutions. Politicians and the media are reinforcing these characteristics, thus adding to their frustrations. Passive and dependent workers are now floundering in a new, more competitive job market focused on individual accountability, capability, and productivity. Understandably, they feel powerless and anxious. Instead of being victims, people should acquire new attitudes and skills that will enable them to prosper and reduce their economic anxiety as they adjust to new realities. Looking for scapegoats and economic villains in the current macro arena will only add to their economic anxiety.

Robert B. Hermanson
Economics Professor
Western Washington University
Bellingham, Wash.

STOCK INVESTING MAKES FOR MORE INEQUALITY

In her commentary ("Confessions of a financial bungee-jumper" Mar. 11), Karen Pennar tells how she put 80% of her retirement savings into a stock fund. Her reasoning may be sound—but my concern is not how long the boom lasts, but what it means when millions of households turn to increases in stock prices as the mainstay of their savings strategies. That creates a constituency of investors with an interest in stock repurchases and higher dividends, thus strengthening the demand for corporations to "create value for shareholders," thus legitimizing the downsizing mentality of corporate management. The consequent loss of stable jobs helps ensure that fewer households will have adequate retirement savings and reinforces the trend toward income inequality.

William Lazonick
Director, Center for Industrial Competitiveness
University of Massachusetts
Lowell, Mass.

NO ONE IS PUMPING UP AMERICAN CHICKEN

Your article on exporting chickens to Russia said: "U. S. processors have long been criticized for lacing chickens with chemicals and hormones" ("Yankee chicken, go home," News: Analysis & Commentary, Mar. 11). There are no—repeat no—hormones authorized by the U. S. government for use with chickens, and no producer uses any. There are no preservatives or additives in fresh chicken. No chemicals are added.

George B. Watts
President
National Broiler Council
Washington

FOREIGN RIVALS SUIT HICKEY-FREEMAN JUST FINE

Hickey-Freeman salutes the effo Ermenegildo Zegna has put forth expanding its business ("Is that a Ze na you're wearing?" Marketing, M 4). But your statement, "European d signers such as Zegna . . . have tak market share away from homegrov outfitters such as . . . Hickey-Freema is not correct. For the past three yea our business has shown growth in un and dollars. Therefore, Hickey-Fre man has increased its market sha We are proud that a product made the U. S. by craftsmen experienced hand-tailoring can compete with fo eign makers.

Steven J. Weir
Preside
Hickey-Freeman C
Rochester, N.

JOE SIX-PACK: A SORRY STEREOTYPE

I was appalled but not surprised the headline about the loss of U. S. jo ("Squeezing out Joe Six-pack," Econo ic Trends, Mar. 11). Such stereotypi and demeaning editorializing should snuffed out. I'm sure the thousands American workers you mention as lil ly to lose their jobs do not apprecia the insult of being referred to in th manner. Some of them probably do drink at all, and some aren't even Jo anyway, but Marys and Janes.

Chris Boel
Indiana Univers
Bloomington, In

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OOD SPORT
President and His Adversaries
James B. Stewart
on & Schuster • 479pp • $25

TILL LOOKING OR A SMOKING GUN

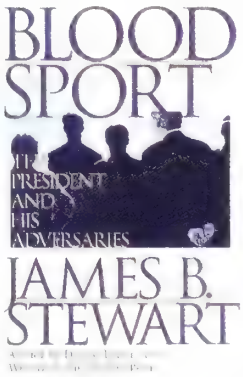
n January, 1994, after two weeks of combing the Arkansas countryside to get to the bottom of the Whitetter matter, I found myself at the stern Sizzlin' steak house in Arkadelia. I had been told Bill and Hillary nton's Whitewater partner, James B. Dougal, dined there regularly. And was there this night. No sooner had ntroduced myself than McDougal dended: "Hand me your wallet." I comed, and he picked through the contts—pulling out credit cards, my kerage-account card, even my videore membership card. How would I l, he asked, if all my personal busiss were pulled out in public? "Maybe w you know how I feel," he said, mming down the wallet.

Whatever his frustration at the time, Dougal's troubles have only grown eper. He's beset by health problems, l the renewed investigations by jourists and congressional Republicans ve kept Whitewater on the front ges. Worse, McDougal is now standing al in Little Rock on fraud charges.

So, here's the good news: A hot new ok describing in excruciating detail Dougal's Whitewater land deal makes Clintons look worse than he does. at's perhaps inevitable since the aur, former *Wall Street Journal* reter James B. Stewart, was omised—then denied—access to the st Couple, while McDougal and his ranged wife were cooperative.

Blood Sport: The President and His versaries delves not only into Whitetter but also into the other alleged ndals that have dogged the Presint and the First Lady. There's the 93 suicide of White House deputy nsel Vince W. Foster Jr., Hillary's lutive commodity trades, the collapse of dison Guaranty Savings & Loan, the ng of the White House travel office ff, Bill's alleged sexual dalliances as governor, and the Clinton staff's behind-the-scenes attempts at damage control.

In an evenhanded investigation, Stewart confirms many of the suspicions I brought back from Arkansas: Despite all the embarrassing revelations investigators found as they picked through the Clintons' financial past, this is one detective story still looking for a smoking gun. Stewart finds no proof of the key charges: that funds were diverted to the Clintons or to the Whitewater land venture from Madison Guaranty, the failed S&L that McDougal controlled. Nor does the author find evidence that Clinton did McDougal political favors for covering the then-governor's Whitewater debts, or that Clinton tried to discourage state regulators from seizing Madison. Stewart also dismisses as "preposterous" claims that Foster was murdered.



Even so, Stewart reveals embarrassing new details about the Clintons' role. For instance, he alleges that in 1986, when Hillary Clinton was renewing the Whitewater mortgage, she valued their half-interest in the property at roughly double the bank's estimate. That contradicts the Clintons' claims that they were silent partners in the venture. Moreover, Stewart notes, submitting false information in loan applications is a federal crime, although prosecutors would have the burden of proving the Clintons lied—and were not merely ignorant about the land's declining value.

How to understand the Clintons' casual approach to Whitewater and other investments? Stewart seems to feel that they must have expected friends to provide for them financially. That certainly seemed to be the case with Tyson Foods Inc. executive James B. Blair, who parlayed Hillary's $1,000 commodities investment into $100,000. "The Clintons . . . expected others to take care of them by virtue of their power and prestige as the governor and his wife."

For all his spade work, Stewart arrives at the conclusion so many before him reached: While the Clintons may not have broken any laws, their inclination to stonewall and shade the truth is disconcerting. In other words, the scandal lies not in what they did but in how they explained it. According to Stewart, when a reporter asked a Clinton official why the White House had failed to come clean with the press about the First Lady's commodities trading, he was told: "The first instinct from everybody from Arkansas is to lie."

And although Stewart performs yeoman service as a gumshoe reporter, he fails to explore larger questions about Whitewater. One troubling question is whether Whitewater is being driven largely by political enemies and a press corps with an insatiable appetite for scandal. Even if Clinton had been completely open at the start, the press might still have been unwilling to relent, especially since many reporters were being fed information by two highly organized GOP operatives. Stewart lets his fellow journalists off too lightly, particularly in their coverage of the travel-office affair. Travelgate, he hints, was stirred up by a press corps exacting retribution for the firing of a staff that had condoned reporters' unethical behavior, such as smuggling in goods purchased while traveling abroad with the President.

An even more important question is: Have we set such lofty standards for our public officials that anyone who has lived in the real world and succumbed to normal human foibles can be accused of scandalous behavior? Compared with past Presidential misdeeds, the Clintons' sins don't seem so great. But voters will have to render their own judgment come November, and Stewart's book provides a solid base to help them decide.

BY DEAN FOUST

Foust has covered Whitewater for BUSINESS WEEK.

FOR STEWART, THE SCANDAL LIES NOT IN WHAT THE CLINTONS DID BUT IN HOW THEY EXPLAIN IT

Just married: Ma

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BY STEPHEN H. WILDSTROM

TOSSING JUNK OUT OF WINDOWS

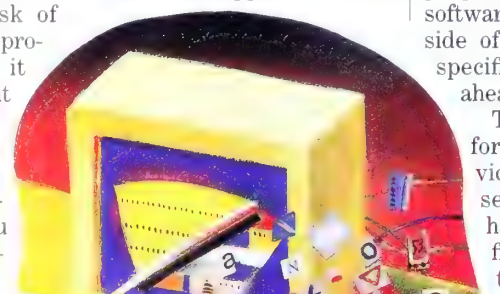
Cheap housekeeping programs can get rid of digital debris without too much fuss

After I suggested recently that buyers of new computers should clear the junk software off their hard drives (BW—Mar. 11), several wrote to ask just how to go about doing it. That's a good question. It turns out that the task of getting rid of Windows programs is harder than it sounds—or than it ought to be.

The bad news is that in order to do a proper job of eliminating unwanted applications, you need to buy an additional piece of software. The good news is that an inexpensive housekeeping program, also called a cleanup utility, will free up space on your hard drive and will help eliminate problems that are caused by duplicate or outdated files.

UNREALIZED PROMISE. I've taken a look at three such cleanup programs: UnInstaller 3.5 from MicroHelp (800 777-3322), CleanSweep 95 from Quarterdeck (310 309-3700), and Remove-It 95, put out by Vertisoft Systems (800 466-5875). All of them are widely available at software stores at a price between $25 and $35. All of them offer Windows 3.1 and 95 versions in the same box, and all perform similar functions well. Truth be told, there's not much basis for preferring one over another, although I found CleanSweep to be the easiest to use, by a narrow margin.

This is one area where Apple Computer's Mac operating system is simpler. On the Mac, simply dragging an icon to the trash can has the effect of throwing the whole program away. Try that in Windows 95, however, and you junk only the icon—while the underlying program stays right where it is. Win95 was supposed to have almost Mac-like cleanup ease, but, as in a number of other fields, the promise hasn't quite been realized. Although displaying the "Designed for Windows 95" logo requires that an application must come with its own "uninstall" routine, it will be a long time before the programs that were written for older versions disappear. Even today, more than half of the newly published software that I see specifies "Windows 3.1 or later," which means there is no assurance that a cleanup feature has been included.



Getting rid of a Windows program by hand is a tedious chore. First, you have to delete the folder or directory containing the program files. Then, you have to eliminate its icon from the Win95 start menu or a Windows 3.1 program group. Even then, you'll probably be left with orphaned files remaining in other directories. And the now-departed program will still be registered in Windows' database of installed applications, a situation that can later cause Windows to try to open a file with a nonexistent program.

LESS SPACE. The utility programs automate the cleanup process, hunting down all unneeded files. Sometimes, there's a possibility that a file may be used by some other program. In these cases, the software wisely errs on the side of caution—unless you specifically tell it to go ahead and delete the file.

These programs perform other helpful services as well: They can search through your hard disk for duplicate files or components that no longer seem to belong to any program and delete them. They will also easily copy a program to disks so that you are able to transfer it to a laptop or a new computer and retain any customization that you may have done. The utilities will also let you compress little-used applications with the result that they take up less space but can be decompressed when needed. One extra tip: After deleting or compressing a lot of files, you should run the Win95 disk defragmenter to finish the job of tidying your drive.

As software written for Windows 95 becomes dominant, the need for program-removal software will fade. But these cleanup programs all add enough utility that they are well worth their modest price.

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When color laser printers showed up last year, the pricey units were more impressive for their speed and ability to print in volum than for print quality. That's changing with a new gener tion: The Color LaserJet 5 series from Hewlett-Packar (800 752-0900), starting a

$6,000, can print color images at the equivalent of 1,200 dots per inch without the graininess or color band of earlier models. The printe turns out black-only pages 10 per minute, color at 2 or a minute. HP says the cost toner and developer is as lo as 9¢ for a typical color pag

LAPTOPS

SECRET SERVICE

As Windows NT gains mome tum among corporate users compatibility problems and lack of support for PC-card modems have kept the syst off laptops. Digital Equipme aims to change that with a $6,000 version of its new HiNote Ultra subnotebook w NT—and software to run a limited range of PC cards— installed. That price buys a 133-megahertz Pentium processor, a 1.4-gigabyte hard disk, and 24 megabyte of RAM. Digital expects the laptop to appeal to financia services outfits and govern- ment agencies that need NT tough security features.

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BY PAUL CRAIG ROBERTS

THE GREATEST LEADERS OF THE '80s GET NO RESPECT

THANKLESS: Reagan, Thatcher, and Salinas set their countries on the right path–against all odds in Salinas' case–yet all three are vilified

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

Former Mexican President Carlos Salinas de Gortari, former U.S. President Ronald Reagan, and former British Prime Minister Margaret Thatcher all know the truth of Niccolò Machiavelli's observation that those who take the lead in introducing a new order of things get in hot water.

All three leaders achieved great success, and all three are vilified. Salinas undertook the biggest changes. He had to make a one-party state democratic, create a rule of law where there was none, and privatize a socialist economy. Reagan rescued the U.S. from stagflation and had the vision to see the end of Soviet communism. Thatcher stopped runaway inflation, put public expenditure under control, and cut tax rates, thereby restoring British vitality.

Salinas' accomplishments are denied, while Reagan's and Thatcher's are frequently ignored or attributed to other factors. For example, Reagan's victory over stagflation is attributed to the breakup of the Arab oil cartel.

Machiavelli recognized that people resent leadership even when it benefits them. This makes leadership a rare commodity even in countries with an abundance of politicians. It emerges only in a crisis, and seldom then. Its absence today attests to the success of the three great leaders of the 1980s in putting their countries on firm footing.

Nonetheless, Salinas is viewed as the man who ruined Mexico by failing to devalue. There is a certain illogic to this argument, as the devaluation by his successor solved nothing and brought on a crisis of its own. This crisis, which remains, is explained away with the claim that there was no alternative to devaluation. But there was: monetary tightening and a large privatization. The former would have eased fears of peso oversupply, and the latter would have boosted the currency with capital inflows.

BUDGET BOGEYMAN. Reagan and Thatcher have not suffered the personal vilification heaped on Salinas, but their policies are routinely trashed by pundits. For example, David E. Rosenbaum of *The New York Times* saw the specter of Reaganomics in the strong showing of Steve Forbes's flat tax in early Republican primary polls. To ward off a resurrection, Rosenbaum marshaled "the overwhelming consensus" in "Washington and academic circles" that "the supply-side theories Mr. Forbes espou were largely discredited in the 1980s."

Rosenbaum is oblivious to the humor his appeal to such discredited authorities "Washington and academic circles," but w Rosenbaum means is that nothing Rea did counts because of the budget deficit.

Never mind that all of the deficit hyste have come to naught. The bogeyman is rolled out every time supply-side econom is mentioned. Despite the deficit, inflat and interest rates have collapsed, and vi ally everyone who took out a mortgage ing the past 20 years has refinanced. U.S. has not become a deindustrialized R Belt, as booming exports and a virile auto dustry demonstrate. The Japanese have taken us over. Instead, they are experienc an economic and financial crisis. Meanwh the U.S. stock market continues to re new highs.

STAG-WHAT? In the late 1970s, when s ply-side economics stepped onto the po stage, the issue it addressed was not budget deficit but the inability of the ec my to grow without higher inflation. S ply-side economics was designed as an planation of and remedy for stagflation. success is evidenced by the disappeara of stagflation as an issue. Even the tern unfamiliar to those who came of age wit the past 10 years.

To cover up this success, a failure was vented. Reaganomics is alleged to have b based on a prediction that tax cuts wo pay for themselves, and the deficit is proo failure. No facts support this charge. All ficial documents showed that the tax cut explicitly based on the assumption that would reduce revenues by more than $ billion, a loss built into the deficit foreca

Unanticipated disinflation caused the b get deficit in the Reagan years. It produ $2.5 trillion less gross national product t was forecast between 1981 and 1986. T loss of tax base was the source of the r enue shortfall. As Congress would not rat et down spending proportionally, the gap tween revenue and expenditures grew.

The evidence supporting the achieveme of Salinas, Reagan, and Thatcher is so ov whelming that economists and pundits ha to go out of their way to avoid it. If th leaders are failures, where are the succ stories?

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And then, there's the fact that Macintosh brand loyalty is the highest of any PC in the world: 90% of Macintosh customers buy a Mac the next time around. Which leads people like Andrew Laham, MIS Director at the law firm Fleming, Hovenkamp & Grayson, to say, "*There would be a major crisis if we had to do without Macs. In fact, there would be an open revolt.*" Indeed, if the mail we've received lately is any indication, more than a few CFOs out there would revolt, too, if their companies didn't use Macintosh computers.

"*NASA saved $800,000 a year on maintenance alone when we replaced their legacy system with a Macintosh system,*" says Steve Monteith, a member of the Research Triangle Institute TechTracS Team.

And if you replace a Windows system with a Mac? According to a recent study by the Gartner Group, technical support costs for Macintosh tend to be 25% lower than support costs for Windows.** Even *PC World* magazine ranked Apple as one of the best for reliability and service among all makers of personal computers.

See the future. Turn on a Mac.

As they say, you can't simply rest on your laurels. So what's next? Let's start with Copland, our upcoming operating system.† Copland won't just change the look of the Macintosh desktop; it will incorporate an entirely new technology called OpenDoc® that will change the way you think about computers. (Sound like hype? Check out *InfoWorld*—they named OpenDoc the winner of the 1995 Landmark Technology Award.)

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BY GENE KORETZ

DO ELECTIONS SWAY FED MOVES?

Apparently only in their timing

Will the fact that 1996 is a Presidential election year affect Federal Reserve policy in the months ahead? According to Wall Street lore, the Fed tends to resist making policy changes during election years. Many observers also think it is less likely to tighten in such years.

The Fed's track record proves otherwise. Since 1972, reports economist John Youngdahl of Goldman Sachs & Co., the Fed on average has actually made somewhat more policy shifts in election years than in other years. And tightening moves were also more common—probably because economic growth in election years was quite strong.

Youngdahl did find, however, that policy shifts were far less frequent in September and October (and more frequent in November and December) than in other years—indicating that the Fed tends to defer moves as elections approach until after the votes are counted.

A PANG OF ECONOMIC ANGST

Germany's revival has stalled

The economic news in Germany is anything but reassuring. After posting no growth in the third quarter, the economy dipped 0.5% in the fourth and seems likely to decline in the first, as well. Meanwhile, unemployment hit a postwar high of 11.4% in February, as an inventory correction, weakening capital spending, and declining construction took their toll of economic growth.

The most positive development is rising exports, which seem poised to lead the economy out of recession—despite the hurdles posed by a strong mark, high wage settlements, and sluggish European economies. Ralph Peters of Aeltus Investment Management Inc. thinks Germany's surprising export performance derives from the superior quality of German capital goods and manufacturers' foreign investment strategy. "To save on labor costs," he says, "German exporters may be shipping partially assembled high-value products to new plants overseas."

BEWARE THOSE HEFTY JOB GAINS

The economy may not be so robust

Bond holders are still counting the costs of the surge in bond yields sparked by February's unexpectedly strong job numbers. But David H. Resler of Nomura Securities International Inc. has a sickening sense of *déjà vu*. "It's all too familiar," he says.

Exactly six years ago in 1990, notes economist Resler, employment soared 602,000 during January and February after recording a gain of only 810,000 in the last half of 1989. Concluding that the economy was reviving after a year of lackluster growth, the Federal Reserve suspended further easing moves, and panicky investors pushed bond yields up by 88 basis points above their December level—more than enough to choke off interest-sensitive sectors.

The present-day parallels are striking. After total job growth of only 824,000 in the last half of 1995, employment posted a cumulative gain of 517,000 in the first two months of 1996. Several Fed officials have hinted that further easing is on hold. And 30-year bond yields are up sharply since the start of the year.

As Resler sees it, the recession in mid-1990 proved that the markets overestimated the economy's basic strength early in the year and thus helped bring on the downturn. Further, he notes that January-February employment gains have been unusually strong in most years since 1983—suggesting a systematic early-year tendency to exaggerate employment and economic strength. (Payroll gains in the first two months of the past three years averaged 515,000, but real first-quarter growth in those years averaged a paltry 1%.)

Of course, no one yet knows whether underlying business conditions this year are improving as much as recent job data imply. But the events of 1990, warns Resler, suggest that the latest interest-rate surge could well choke off any revival that is under way.

THE LITTLE GUYS AREN'T WORRIED

Small businesses chug right alor

Economic statistics have been blow hot and cold in recent months, America's small-business community been steering a steady if unexcit course. According to the latest surve the National Federation of Independ Business, its small-business optim index edged up slightly in February 100, staying close to its average 1 level of 100.8.

"The outlook," says NFIB econon William C. Dunkelberg, "is for contin moderate growth and no recessi Small businesses are bullish about th own prospects in the months ahe though somewhat less confident ab the economy as a whole."

In the wake of an unusually sev winter, many small companies repor sluggish sales and earnings in Janu and February. Looking ahead, howe an impressive 51% of respondents February said they expect rising sa

over the next six months, compa with just 16% expecting declines— strongest reading since late 1994.

Indeed, capital spending is on a r Some 70% of surveyed companies ported making capital expenditures year—the most in the 23-year history the NFIB survey. And a near-record 4 are penciling in capital outlays over next six months (chart).

On the employment front, Dunk berg reports that the NFIB survey poi to more moderate recent job gains th the huge increase reported by Labor Dept. for February. Howev small-business hiring plans remain "v strong," and a record 25% of all com nies say they have job openings t are difficult to fill. The tightest la market: the South Atlantic regi where more than 30% of companies they have hard-to-fill job openings.

JAMES C. COOPER & KATHLEEN MADIGAN

S THE STORMS CLEAR, HE EXPANSION IS CHUGGING ALONG

U.S. ECONOMY The economic tea leaves in early 1996 have been obscured blizzards, strikes, and government shutdowns. Brush ay the detritus, however, and the data continue to w that the expansion is heading into its sixth year idly on track.

The train is a local, though, not an express as the rost February data suggest. The first-quarter numrs from homebuilders, factories, and retailers show economy moving forward in stop-and-go fashion. d it all up, and the result is only modest growth.

The problem for the outlook is that the bond market is fixated on February's brawny numbers. The resulting surge in long-term yields, though, seems unjustified by trends in both economic growth and inflation. First-quarter real gross domestic product appears to be growing little better than the fourth quarter's tepid 0.9% pace, and inflation nains tame at under 3%.

But if sustained, the rate rise will limit the economy's lity to shake off its current malaise. Recession is still a worry, but higher borrowing costs will slice at st a fraction off second-half growth. The big loser l be construction, particularly housing, and that ans less demand for all the goodies that furnish a me, from carpeting to couches to cookware.

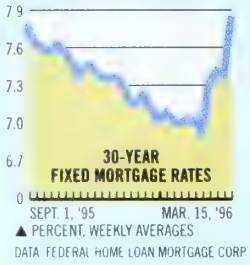
Higher rates have already put the kibosh on mortge refinancings—applications have plunged 40% in y three weeks. Refis were expected to provide conmers with extra cash and aid the purchase of bigket items, such as cars, vacations, and appliances.

IOPPERS WERE OUT in full force in February, at st. Retail sales rose 0.8%, after slipping 0.1% in nuary. So far in the first quarter, BUSINESS WEEK timates real store volume is growing at an annual e of 2% (chart). That's below the fourth quarter's % pace, but it shows consumers aren't retrenching. In February, car sales jumped 2% and department re receipts rose 2.4%. Even the intensely competitive parel sector posted a hefty 1.2% sales gain in Feb-ary. Sales of building materials also rebounded.

That hike reflects housing's staying power, which ng tough even in miserable January. Housing starts se 3% in February, to an annual rate of 1.49 million. That followed January's 1.5% rise, even though homebuilding was expected to drop because of the blizzard.

The reason it didn't is that the boom areas for housing are the West and South, regions less exposed to winter's wrath. In fact, starts in the West surged 29.2% in the past three months, to 425,000 units in February—the highest level in six years.

March looks upbeat, too. The National Association of Home Builders' housing market index rose 10 points, to a reading of 60 for the month. That's the largest monthly rise in the index's 11-year history. Builders reported increased buyer traffic and sales.



The recent spike in rates, though, raises the bar too high for some buyers. The rate on a 30-year fixed mortgage jumped to 7.83% in mid-March, a percentage point higher than four weeks earlier (chart). That lifts the income needed to qualify for a typical $100,000 mortgage from less than $31,000 to more than $35,000. If demand begins to evaporate later when today's new projects are finally finished, starts will suffer.

MANUFACTURERS APPEARED TO BE almost as busy as homebuilders in February. In fact, the month's industrial production and capacity utilization suggest that the factory sector is in a boom. It isn't. Output in the nation's factories, mines, and utilities soared 1.2% in the month, the largest gain in more than eight years, after January's 0.4% decline (chart, page 24). The industrial operating rate surged from 82.1% to 82.9%.

With almost all January's data distorted on the low side and February's numbers exaggerated on the high side, an average of the two months gives a fairer read of the trend. For example, industrial production is rising at an annual rate of only 1.3%, not much better than the 0.5% snail's pace in the fourth quarter, and the January-February operating rate is slightly below the fourth-quarter reading.

Among broad categories, production of business equipment is surging at a 13.5% pace, but that reflects the return of striking workers at Boeing Co. Second-quarter output will slow considerably. During the past year, growth in equipment output has slipped to a 5% rate, half of its pace a year earlier.

Output of consumer goods in January and February

is running 3.2% below the fourth quarter, reflecting cuts in auto output. The auto weakness will run at least through March. Car companies have curtailed output because of excessive inventories, and now the strike by the United Auto Workers against General Motors Corp. will hammer both output and payrolls in the March reports, due out in April.

One implication of the UAW strike is that it will force a faster-than-planned reduction of inventories, possibly setting up a sharp rebound in output later this spring. Vehicles on dealers lots, which had swelled to an 88-day supply at the end of January, shrank to a 73-day supply by the end of February.

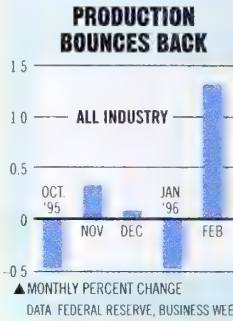
By the end of March, stocks will be close to the more normal 60-day supply, but if the strike is prolonged, shortages will become widespread. In any case, the drawdown of car inventories in the first quarter is sure to exert a big downdraft on GDP growth.

IF THE FEBRUARY SURGE in capacity use were real, cost pressures would be clearly evident. However, if anything, the price indexes show that inflation pressures are abating, especially at the wholesale level. Producer prices for finished goods fell 0.2% in February. Excluding energy and food, the core index was up 0.1%, and prices at earlier stages of production dropped.

Not surprisingly, the consumer price index also looked tame in February, with both the total and core indexes rising 0.2%, putting annual inflation at 2.7%. ing forward, competitive pressures and sterling p ductivity gains in manufacturing will hold down prices of goods, and since last summer, service inflat has shown an improving trend that should continue

A sector to watch is housing. Housing inflation, so 40% of the CPI, has been in an uptrend over the p year, rising from 2.2% a year ago to 2.9% in Februa Much of that reflects improvement in the housing m ket generally, and the trend may continue.

One area where inflation is anything but tame is the cost of having fun. Entertainment prices, making up just 4% of the CPI, surged 0.8% in February, reflecting higher prices for toys and games as well as tickets for movies, concerts, and sporting events. Annual entertainment inflation doubled in the past year, to 4% in February, a four-year high.



Pricier baseball tickets aside, inflation should the year about where it is now. That's because economy is unlikely to build up a head of steam t will generate price pressures. As soon as the bo market realizes this, the quicker long-term rates can back to levels that are more supportive of growth.

GERMANY

THE BUNDESBANK'S HANDS ARE TIED

Germany's "phase of pronounced weakness," as the Bundesbank puts it, looks more like a plain old recession. The economy is on the verge of back-to-back quarterly declines in real gross domestic product. But even with unemployment at a record high and inflation near a record low, the Buba has put interest-rate cutting on hold. That threatens to prolong the suffering.

The problem is unruly growth in the M3 money supply and a [illegible] in long-term interest rates. M3, which the Buba views as a key gauge of future inflation, surged in February at an annual rate of 12.6% from the fourth-quarter level. The pace was far above the 4%-to-7% target, and it pushed bond yields even higher. Although special factors, including heavy government borrowing, are exaggerating M3's pace, the speedup dashes hopes for a rate cut soon. The official discount rate has been at 3% since Dec. 14. Analysts now believe that a cut is not possible until May or June.

Aside from some modest tax relief, fiscal policy offers no help. On Mar. 15, Finance Minister Theo Waigel imposed a federal spending freeze on big-ticket items aimed at preventing this year's deficit from overshooting the planned 60 billion marks ($40.7 billion) target. And on Mar. 19, Chancellor Helmut Kohl projecte that "massive" cuts in public spending will be needed next yea to meet the Maastricht goal.

Meanwhile, last year's inventor pileup continues to depress manu facturing: Orders weakened further in January from an already-low December level. The drop in business confidence is unabated, with the February reading the lowest in two years (chart). The severe winter is compounding th first-quarter weakness, hitting construction especially hard, so some weather-related rebound in the second quarter seems likely.

That may further cloud the Buba's reading of the economy. However, with inflation at a 5½-year low of 1.4%, further manufacturing weakness would probably override the central bank's M worries and allow a rate cut.

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UNITED AIRLINES

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TRENDS

HAS OUTSOURCING GONE TOO FAR?

It's the corporate rage, but farming out work can cost a company dearly

DuPont Co. has always run corporate training and development out of its Wilmington (Del.) head office. But these days, Boston-based Forum Corp. handles it instead. In Somers, N.Y., PepsiCo Inc. employees, long used to receiving personal financial planning from their employer, now get that service from KPMG Peat Marwick. Denver's TeleTech Holdings Inc. is taking customer-service calls from AT&T customers and booking seat reservations for Continental Airlines. Then ere's General Motors Corp., which is nasty labor fight over its right to farm out some brake production.

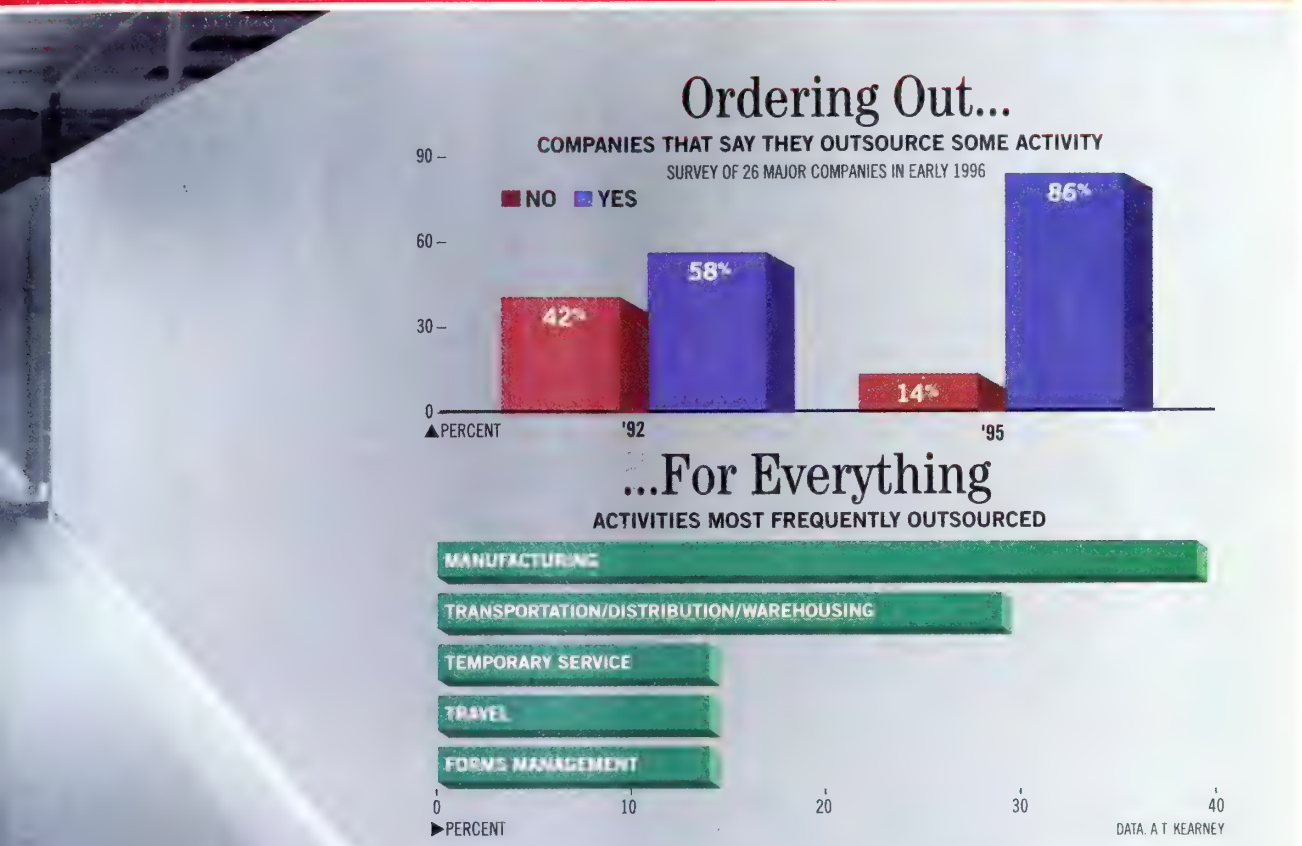
Call it the growth industry of the Nineties. Outsourcing, endorsed as a cost-cutting measure in recent years by such management gurus as Peter Drucker and Tom Peters, has emerged as the most sweeping trend to hit management since reengineering. In the rush to improve efficiency, Corporate America is going to outsiders to buy ever more products and services that were once made by its own employees.

But it's a trend that has a decided downside. Outsourcing is a hot button with unions, as GM found when its labor dispute virtually shut down its North American operations (page 28). The payoff from outsourcing, moreover, sometimes falls far short of expectations. One study found the average savings to be around 9%, though consultants often promise gains of 20% to 40%. Another hazard: An errant supplier can delay a key product launch and anger customers. "You rarely hear about the failures of these contracts, but there are many of them," says John L. Wyatt, CEO of consultants James Martin & Co.

Such problems, however, have done little to slow the rush to farm out work. Companies are parceling out everything from mailroom management to customer service, from pieces of human resour departments to manufacturing and tribution. "We're at the beginning of explosion," predicts Scott Hartz, m aging partner of Price Waterhouse's c sulting group. "Many of the firms do more outsourcing aren't troubled c porations trying to save a nickel. T are often the corporate leaders." Ab 86% of major corporations now c source at least some services, up fr 58% in 1992 (chart), according to a by consultants A. T. Kearney, wh surveyed 26 major companies, incl ing American Airlines, DuPont, Exx Honda, IBM, and Johnson & Johnson

The rush to outsource has create nascent industry with annual reven of $100 billion. Corporations are sieged by firms brandishing seemin attractive outsourcing deals and pro lytizing about their benefits. A tra association, the Outsourcing Institu was launched less than three years a and some members are even prom ing the notion of a new corporate ti chief resource officer, one who wou among other things, monitor relati ships with outside vendors.

Some companies are locked into long-term contracts w



The hype over outsourcing's benefits, vever, disguises numerous problems. neral Electric Co. stubbed its toe last ar when the introduction of a new shing machine was delayed by pro- ction problems at a contractor to om it had farmed out key work. GE y lost three weeks as a result of the ches, but it could have been worse. uthern Pacific Rail Corp. suffered ough myriad computer breakdowns l delays after outsourcing its internal nputer network to IBM in 1993.

Some companies have found them- ves locked into long-term contracts h outside suppliers that are no longer npetitive. Indeed, multimillion-dollar hnology-outsourcing contracts are of- so complex that companies are hiring sultants at fees as high as $700,000 nply to evaluate the proposals. ome companies have outsourced so ch staff that they have no choice to bring in consultants to eval- e and renegotiate deals gone d," says Eugene A. Procknow Deloitte & Touche.

Critics of the trend worry, too, at outsourcing could lead to increasingly fragmented work cultures in which lower-paid employees simply get the work done, with little initiative or enthusiasm. "A mercenary may shoot a gun the same as a soldier, but he will not create a revolution, build a new society, or die for the homeland," says a Silicon Valley manager who objects to his company's turning to contract workers for services.

OLD HABIT. Dispatching work to outsiders is hardly new. Automatic Data Processing Inc. began taking over companies' payroll functions in the 1950s. Electronic Data Systems Corp. began handling computer and data management for clients in the 1960s. Aramark Corp. has been running cafeterias for companies, colleges, and hospitals since the 1960s.

Today, though, providers of outsourcing services can't seem to expand fast enough. KPMG Peat Marwick expects its outsourcing revenues to double in three years, to $500 million. TeleTech Holdings, which handles customer-service calls for such companies as AT&T, expects to employ 5,500 workers by yearend, up from 3,000 today. "We show companies how to turn fixed costs into variable costs," says Kenneth D. Tuchman, CEO of TeleTech. "That is very powerful in a day and age when Wall Street is crucifying companies that have too many employees."

Relentless cost-cutting is the main force behind the trend. BellSouth Corp., which is shedding 13,200 employees over the next two years, expects to outsource about $60 million in services. GM's outside purchases are huge: in parts making alone, GM buys $10 billion a year in components from outside suppliers, many of whom employ low-wage, nonunion workers. Even with all that work farmed out, GM is at a disadvantage because it makes about 70% of the content of its vehicles itself, vs. about 50% for Ford and 30% for Chrysler.

Heads usually roll at companies that farm out work, and survivors often work harder for less. Consider DuPont, which signed up with Forum in 1993. Under a five-year, $10 million contract, Forum began administering all of the company's training and development operations. Forum immediately shrank the

side suppliers that are no longer competitive

department from 70 employees to 30. And the DuPont workers who were transferred to Forum "certainly don't have the benefits they had," says John M. Harris, president and CEO of Forum.

The savings from outsourcing can prove illusory, though. Deloitte & Touche is now helping renegotiate a $170 million contract for a retail client. The company got a one-time 20% cost savings when it signed an information-processing deal five years ago, but technology prices have since fallen so fast that the retailer is now paying far more than it would to do the work in-house. "They are locked into a $36 million pricing gap in a business where the margins are thin, and they need every nickel to survive," says Procknow of Deloitte & Touche. "Some clients are now at the mercy of outsourcers because they don't even h the staff to manage these deals."

But few expect the trend to s anytime soon. As long as the pressur on to reduce costs, companies will c tinue to turn more of their operati over to outsiders. That's good news the likes of Forum—but not necessa for the rest of Corporate America.

By John A. Byrne in New Y

CAN HARRY PEARCE STARE DOWN THE UAW?

General Motors Vice-Chairman Harry J. Pearce doesn't flinch in a tight situation. He showed that last summer when an angry black bear threatened to maul him and his buddies on their annual fishing trip in the deep woods of Canada. While the others froze in fear, Pearce coolly picked up a gun and killed the beast. "It was so typical of Harry," recalls his brother Bill, "one shot and that bear was dead."

One tough guy to face down in a fight. The United Auto Workers are learning that lesson right now. Pearce is leading General Motors Corp. in the largest labor dispute to hit the No. 1 auto maker in 26 years. What began as a strike at two GM brake plants in Dayton, Ohio, on Mar. 5, effectively shut down the auto maker's North American car business. But Pearce is adamant that GM won't back down precipitously just to shorten a costly strike, as it sometimes has in the past.

The tough tactics are characteristic of Pearce's style, notes Morgan Stanley & Co. analyst Stephen J. Girsky. "GM is accelerating the big issue that was going to come up this fall." Indeed, rather than wait for Detroit's traditional fall labor negoti- [illegible] when the UAW typically tar- [illegible] one company for a potential [illegible] Pearce is forcing the union to [illegible] ith GM on the issue he regards [illegible] v: outsourcing. Pearce believes [illegible] survive, GM must have the pow [illegible] to buy parts at the best prices, either from its own plants or by outsourcing the work to suppliers. "It is critical to any company's long-term viability," he says.

GM's big problem: Its own parts workers pull down up to $45 in hourly wages and benefits, far more than employees at many outside suppliers. Plus, the outsourcing the company wants to do at Dayton involves a key new technology: antilock brakes, the unit price of which, industry sources say, has dropped to about $200, from $700, since 1991. So, with the Dayton strike looming, Pearce paid a visit to Richard Shoemaker, the UAW's top GM negotiator, at the union's Detroit headquarters. His message, says another top GM executive: The company would not capitulate on the outsourcing issue. The union won't comment.

BROAD POWERS. Pearce was given the job of taking on labor by GM Chairman John F. Smith Jr. and the company's board. A source close to the board says outside directors were upset that the UAW wouldn't agree to lower wages in parts plants in the 1993 contract, and still wants management to institute such cuts.

Pearce, 53, became GM's No. 2 executive on Jan. 1, and has broad powers to involve himself in important strategic issues. If he prevails now, insiders think he has a good chance of succeeding Smith, 57, as chairman and CEO.

But Pearce is playing a high-stakes game of chicken with the UAW. By March 20, the strike had already cost GM more than $500 million in lost profits, analysts estimate. And Steve Yokich, who won the UAW's top job i part on his reputation as a street fighter, could take vengeance by hitting GM with more crippling strikes if the union doesn't get its way in Dayton. Pearce also may endanger the cooperation with the union which th company needs in order to continue reducing its costs.

STEELY: *GM is set on getting parts where it wants, says Pearce*

Pearce, a forme North Dakota trial lawyer who joined GM in 1985, has bested formidable foes before. In a highly publicized 1993 press conference, for instance, he methodically dismantled a trumped-up *Dateline: NBC* exposé on the safety of GM's pickup trucks. His powerful performance—and GM's whopping defamation suit—forced *Dateline: NBC* host Jane Pauley to apologize to GM on air. "Harry can look you straight in the eye and convince you that you should do exactly what he says," says Elmer Johnson, the former GM general counsel who originally hired Pearce. All of which means GM's get-tough-with-labor stance may not end any time soon.

By Keith Naughton in Detroi

COMMENTARY

By Howard Gleckman

THE BUDGET: IT'S WHERE YOU CHOP THAT MATTERS

Washington pols have faced the fiercest budget-busting beast in their domain—and blinked. Despite election-year vows to end the deficit, it's now clear that neither the Republicans nor President Clinton have the will to confront the only solution that will get them there: curbing the explosive growth of Medicare, Medicaid, and Social Security.

The President's fiscal 1997 budget, released on Mar. 19, would trim the growth of Medicare spending by about $124 billion over seven years. But that is little more than cosmetic surgery to a program that would cost $1.8 trillion through 2002. With Election Day looming, Clinton wants to have it both ways: He'd like to take credit for balancing the budget while hammering Republicans for "slashing" a program he's too timid to reform himself.

These days, Republicans aren't doing much better. True, they tried for a year to enact serious changes in Medicare and Medicaid. But bloodied by Clinton's charges that they would gut seniors' benefits, Republicans now want to expand entitlements. In their own election-year pandering, they are proposing to increase benefits for the wealthiest Social Security recipients. The cost: $1 billion a year.

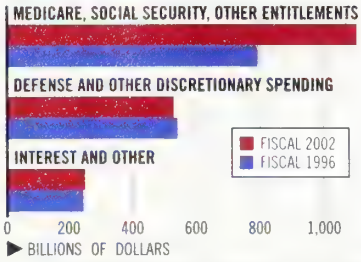
DANGERS. This collective wimp-out will have major consequences. First, the long-term solvency of Social Security and Medicare remains in jeopardy, and the time left to deal with both is shrinking. Second, if big entitlement cuts are out, all the pressure to eliminate the deficit will fall on the rest of government.

Balanced budgets in both the Clinton and GOP plans come largely on the back of "discretionary" spending—those programs that are subject to annual appropriations from Congress. While domestic discretionary spending would account for about 17% of all federal outlays in 2002, it would have to absorb nearly half of all budget savings under the Clinton plan and roughly 40% under the GOP alternative.

Put another way, under the Clinton budget, overall spending in 2002 would be about $300 billion higher than it was last year. Yet a staggering 82% of the increase would come from the Big Three—Social Security, Medicare, and Medicaid. In 2002, spending on the three would be 50% higher than in 1995. Outlays for nearly everything else the government does, from national defense to national parks, would be held at 1995 levels. After inflation, that translates into a drop of more than 20% in purchasing power.

ENTITLEMENTS UNLIMITED

How spending is divvied up under Clinton's plan



DATA: OFFICE OF MANAGEMENT & BUDGET, CONGRESSIONAL BUDGET OFFICE

Over the next year or so, Clinton would increase spending modestly for some pet programs, such as education and job training. But as the deficit crunch hits in later years, Americans would face huge cuts in programs they take for granted. Aid for construction of roads, bridges, and public transportation would fall by 11% by 2002. Despite Clinton rhetoric about the federal role in protecting the environment and natural resources, overall spending for those programs would be frozen for seven years. Community development funds would be slashed by 9% next year and by one-third by 2002. The Clinton plan would be a Republican dream. "We'd cut the hell out of domestic spending," says Frank Shafroth, chief lobbyist for the National League of Cities.

JUST WAITING. But that's just the beginning. Because most of the "savings" in both the Clinton and GOP proposals won't take effect until 2000 and beyond, the pols don't have to say precisely where future slashing would be done. The sums are too big to come from trimming waste, fraud, and abuse. Instead, whole programs would have to disappear—the entire Energy Dept., say, or export assistance. "We are waiting until the end for the tough decisions," says Senator Paul Simon (D-Ill.).

Washington's dirty little secret is that neither Democrats nor Republicans have the votes to make these kinds of cuts in government services. So the dismal game continues. The pols don't have the courage to trim entitlements. They propose to slash other spending—later. And while those cuts would be painful for many Americans, they wouldn't balance the budget. What will give? The deficit, of course.

Gleckman follows the budget from Washington.

TOBACCO

'THE SMELL OF BLOOD'

The Liggett settlement is triggering a legal barrage

Big lawsuits tend to be ponderous, especially if they involve the tobacco industry. But antitobacco forces have been in a frenzy ever since Mar. 13, when Liggett Group Inc. became the first company to settle lawsuits alleging that cigarette makers concealed what they knew about the dangers of smoking. Subpoenas are out to former industry employees, new witnesses are surfacing, potential plaintiffs have stepped forward, and prosecutors are intensifying their criminal inquiries. "There's the smell of blood in the air," says John P. Coale, a lawyer representing the so-called Castano class action, a case brought on behalf of all addicted smokers that Liggett settled.

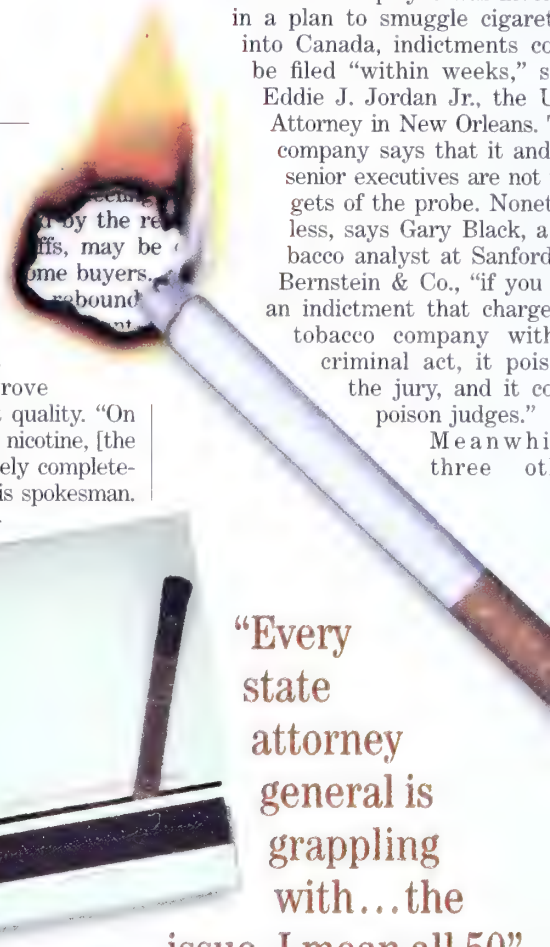
Cigarette makers, whose once united front against critics has been destroyed by Liggett's gambit, clearly don't see it that way. "The settlement does not represent any change of tactics or strategy on the part of the companies, nor do we plan to do anything but vigorously defend the cases," says Daniel W. Donahue, deputy general counsel at R.J. Reynolds Tobacco Co. Some go so far as to predict that the settlement will ultimately fail—after a mandatory court review. Brown & Williamson Tobacco Corp. says its legal strategy is unchanged by recent events, and Lorillard Tobacco Co. declines all comment.

CRIMINAL? Still, the pressure against the industry is intensifying. On Mar. 18, the Food & Drug Administration released affidavits from three former Philip Morris employees—Ian L. Uydess, Jerome K. Rivers, and William A. Farone—stating that Philip Morris deliberately manipulates nicotine levels in its cigarettes to assure smokers a nicotine jolt. That may contradict testimony by tobacco executives. Philip Morris and its brethren admit they sometimes adjust nicotine levels—but they say it's only to improve taste and maintain product quality. "On the assertions of monitoring nicotine, [the affidavits] are 100% absolutely completely false," says a Philip Morris spokesman.

What worries many analysts is the prospect of criminal liability for the industry and its executives. Critics have charged for years that tobacco companies misled the public and concealed what they knew about the risks associated with smoking. But no jury has ever sided with a plaintiff on such claims. "It's not as if we've been hiding the fact that nicotine is part of the smoking experience," says RJR's Donahue. "If we were, we've done a damn poor job of it."

A criminal indictment or conviction, however, could change jurors' minds. In Washington, the Justice Dept. is probing whether tobacco executives committed perjury in 1994, when they testified before Congress that they didn't beli nicotine was addictive. In New leans, in a case focusing on alle tions that a low-level Brown Williamson employee was invol in a plan to smuggle cigaret into Canada, indictments co be filed "within weeks," s Eddie J. Jordan Jr., the U Attorney in New Orleans. company says that it and senior executives are not gets of the probe. Nonet less, says Gary Black, a bacco analyst at Sanford Bernstein & Co., "if you an indictment that charge tobacco company with criminal act, it pois the jury, and it co poison judges."

Meanwhi three ot grand juries are also looking into Tobacco's practices. In Manhattan, feds are investigating the companies securities fraud. Additional federal quiries are under way in Brooklyn, N and Alexandria, Va. And investigati are coming on all fronts. On Mar. 18, dess and Rivers were subpoenaed by



"Every state attorney general is grappling with...the issue. I mean all 50"

SMOKE AND FIRE

Over the past two years, regulators and defecting industry officials have intensified the pressure on tobacco companies and their executives

APRIL, 1994 CEOs of seven top tobacco companies swear to Congress that they don't believe cigarettes are addictive and that they don't manipulate nicotine in cigarettes

994 Mississippi is first of six states to file a lawsuit seeking to recover the costs of treating -related illnesses

AUGUST, 1995 The Food & Drug Administration proposes regulating cigarettes as a drug and advocates strict new regulations banning cigarette sales to minors

NOVEMBER, 1995 Former Brown & Williamson research chief Jeffrey Wigand testifies that B&W manipulated nicotine levels

MAR. 13, 1996 Liggett settles a ke 1994 class action and agrees two days later to settle state lawsuits, pledging a share of its profits as payment

MAR. 18, 1996 The FDA discloses affidavits from three former Philip Morris employees saying that the company controls nicotine levels

ssissippi Attorney General as part of t state's bid to recoup money spent on oking-related illnesses. Uydess, a for- r scientist, and Rivers, a cigarette nt manager, will be deposed on Apr. and 24 in Pascagoula.

The pair could well be joined by oth- . In the past week, roughly a dozen ectors from several companies have ten in touch with various states and ir lawyers to offer information, ac- ding to prosecutors and plaintiffs' yers. For instance, on Mar. 18, a for- r tobacco company salesman tele- oned Trey Bobinger, an assistant at- ney general in Mississippi, to reveal at he knew about how manufacturers trol the nicotine levels in their prod- s. "People are now voicing concerns out things about which they have per- al knowledge," says Bobinger.

NEGADE. Tobacco foes are hoping cash l prompt other defectors to speak . Action on Smoking & Health, a sumer group in Washington, plans n to offer a $100,000 award for in- mation leading to the arrest of com- ny executives who may have misled public about the effects of smoking. Several more states, including Wash- ton and Texas, are now deciding ether to join the fray. "Every state orney general is grappling with what do about the issue," says James E. rney, a former attorney general in ine who works with antitobacco yers and helps coordinate states' an- bacco activities. "I mean all 50."

Plaintiffs have renegade investor Ben- t S. LeBow to thank for their cur- nt good fortune. As part of a bid to ce a merger with RJR's tobacco unit, Bow, CEO of Brooke Group, which ns Liggett, cut deals with class action yers and states on Mar. 13 that uld also apply to any company that uired Liggett. On Apr. 17, RJR share- lders vote on a LeBow slate of di- tors for RJR Nabisco Holdings Corp. Some shareholders aren't willing to it. On Mar. 19, New York Comptroller Carl McCall announced that the state's 5 billion pension fund would make no ther investments in tobacco stocks. e need to limit our exposure," he says. t others are more sanguine. Donald Yacktman, president of Yacktman As- Management Co., which owns 700,000 R shares, is convinced LeBow's strate- will fail. And he believes lawyers and areholders are overreacting. "This ems to be the normal manic-depres- e reaction to an event," says Yackt- an. Or maybe it's just a new kind of otine rush—one that could leave to- cco executives in a pile of trouble.

By Linda Himelstein in San Fran- sco, with David Greising in Atlanta, d Lori Bongiorno in New York

TRAIL'S END: *Forbes's fund-raising plans have been scrapped*

POLITICS

THE $25 MILLION QUESTION

Exactly how is Forbes paying his bills? No one knows

Where did Steve Forbes get the $25 million he lent to his failed Republican Presidential primary campaign? And exactly how much is he worth, anyway? We may never know.

Forbes seems to prefer it that way. By closing down his failed campaign quickly, he may avoid further public scrutiny of his holdings. Forbes has decided not to carry the personal loan on his campaign books as a liability to himself. Instead, he intends to convert the loan to a megadonation, canceling 15 planned fund-raisers and forgoing any hope of recouping some of the loss, his campaign says. That would allow Forbes to balance the books, dismantle the campaign accounting machinery, and avoid filing any more Federal Election Commission reports.

ELECTION '96

As an active campaigner, Forbes would be facing even more exposure. By May 15, he would be required to report to the Office of Government Ethics the value of all his assets. The report also might have revealed any asset sales made to raise campaign cash. By dropping out, Forbes won't have to file the ethics report.

RAIDING THE EGG. Forbes, editor-in-chief of a magazine that delights in detailing the wealth of people with even less money than himself, won't discuss his net worth or the value of Forbes Inc., which he controls with 51% of the voting stock. Forbes's vast wealth is almost entirely locked up in the stock of the company founded by his grandfather. Rival *Fortune* estimates the company's worth at $1.16 billion and Steve Forbes's 35% share at $406 million.

Other sources indicate that Forbes couldn't have raised the $25 million for the campaign without touching the family nest egg. A September, 1995, campaign disclosure filing puts Forbes's ownership of publicly traded stocks and bonds in a range of $2 million to $6 million. His 520-acre estate in Bedminster, N.J., and two other real estate holdings are each valued at "over $1 million," the highest reporting category on the disclosure form. *Fortune* estimates the total value of his real estate holdings at $26 million, but the report also shows that the properties carry mortgages of at least $1 million.

So unless Forbes had $25 million in cash to lend his campaign, he was probably left with three options: mortgaging the family farm to the hilt, borrowing from a bank using Forbes Inc. stock as collateral, or selling Forbes Inc. stock to one of his four siblings. Any loan—including one from a family member or a friend—would be subject to the same $1,000 FEC limit governing contributions. Only a financial institution could have lent Forbes the $25 million, but only then with adequate collateral. The loan amount would have to appear on Forbes's monthly FEC report. Sale of the stock to a sibling wouldn't need to be reported.

Most political experts agree that Forbes probably couldn't recoup his out-of-pocket cash even if he had tried. "Forbes would simply not be able to raise that kind of money now that he has dropped out," says Joshua Goldstein of the Center for Responsive Politics, a campaign-finance watchdog.

Forbes's campaign manager, William Dal Col, says that so far the former candidate hasn't told even him where the $25 million came from for the balloons, TV ads, bumper stickers, and the campaign bus. Unless Steve Forbes decides to tell, no one else will likely ever know.

By Paul Magnusson in Washington

A PUBLIX IN MIAMI: *Were women repeatedly passed over?*

JUSTICE

REVOLT AT THE DELI COUNTER

A sex discrimination suit against Publix may galvanize unions

Carol L. Atkins knows what it's like to be on the slow track. In 1981, the 32-year-old Gainesville (Fla.) resident landed a job as a cashier at Publix Supermarkets Inc., a fast-growing chain based in Lakeland, Fla. Eight years later, she was promoted to grocery stocker, normally the first step toward a higher-paying job in management. Despite a spotless employment record, however, Atkins remained stuck in the same job while men were promoted ahead of her. The breaking point came last year, when Publix opened two new stores in Gainesville and a man with less than three years on the job leapfrogged into a new managerial slot. "I believe I would have been promoted if I was a man," says Atkins.

Fed up, Atkins and 11 other women slapped Publix with a sex discrimination suit last July that was joined by the Equal Employment Opportunity Commission. And on Mar. 12, a federal [illegible]rt designated the case a class action [illegible] behalf of more than 100,000 current [illegible]mer female employees of Pub[illegible]ing it the largest sex discrimination case in U.S. history. The central [illegible] that Publix hires women into [illegible], low-wage jobs and blocks [illegible] the stock and clerk positions [illegible] put them on a management track. Publix denies that it discriminates, arguing that most female employees choose not to take career-track jobs in part because of the long hours.

The significance of the case extends well beyond Publix. Such suits are key to efforts by the United Food & Commercial Workers to maintain pay levels throughout the supermarket industry and to organize nonunion chains such as Publix. Already, the union has won big victories against unionized supermarket chains such as Lucky Stores Inc. and Albertson's Inc. Lucky paid out $107 million in 1992 after a court ruled that it had discriminated against 14,000 women. In 1994, Albertson's settled sexual and racial discrimination charges by agreeing to pay $29 million to 26,000 women and Hispanics. Now, with Publix, the UFCW is breaking into nonunionized territory. "This is a major issue that will roll through the entire industry," says Greg Denier, a UFCW official in charge of the Publix organizing campaign.

Women Shop, Men Get to the Top

Plaintiff's calculations of management positions held by women at Publix Supermarkets

Managerial position	Percent female	Maximum weekly pay
STORE MANAGER	2%	$820
MEAT DEPT.	1%	640
PRODUCE DEPT.	2%	590
BAKERY	20%	630
DELI	90%	600

DATA COURT FILINGS

There's no question that Publix [illegible] some explaining to do. Women h[illegible] close to 40% of all supermarket m[illegible]agement positions nationwide but o[illegible] 21% of Publix ones, according to EE[illegible] and Census Bureau statistics cited [illegible] the Publix plaintiffs. The chain typica[illegible] hires men into the clerk and stock j[illegible] that often lead to management, wh[illegible] only 12% of women get such pri[illegible] spots. The few women who do make [illegible] into management wind up in the d[illegible] which is 90% female and doesn't le[illegible] up the ladder. The result: Full-time m[illegible] employees in Publix' retail stores earn[illegible] an average of 35% more than full-ti[illegible] females in 1994, according to compa[illegible] records submitted in court.

COUNTEROFFENSIVE. Publix doesn't c[illegible]pute the statistics, but it does disagr[illegible] with the plaintiffs' interpretation [illegible] them. R. Lawrence Ashe, Jr., a pa[illegible]ner at Atlanta's Paul, Hastings, Janofs[illegible] & Walker and Publix' lead lawyer [illegible] the case, says that men are 15 tim[illegible] more likely to have prior experience [illegible] stock or clerk jobs before joining Pub[illegible] And, he says, women choose dead-e[illegible] jobs because the hours are better a[illegible] they don't require relocation. "Pub[illegible] doesn't tell anyone they can miss [illegible] night shift to stay home with th[illegible] kids," says Ashe.

Publix also is staging a counteroff[illegible]sive to the UFCW's organizing effo[illegible] Company lawyers have fanned [illegible] across the company and obtained a[illegible]davits from more than 6,000 female e[illegible]ployees stating that they do not f[illegible] discriminated against at Publix.

Atkins and her colleagues aren't c[illegible]vinced. They note that Ashe says the [illegible]fidavits from employees were obtai[illegible] when lawyers entered stores to int[illegible]view employees. And they say Pub[illegible] could make career-track positions m[illegible] desirable to women.

The suit means t[illegible] Publix faces potent[illegible] liabilities that could [illegible]tal hundreds of m[illegible]lions of dollars. And [illegible] gives the UFCW [illegible] emotional issue t[illegible] could help it attr[illegible] thousands of n[illegible] members. If the un[illegible] scores big, a whole [illegible] more than the Pub[illegible] deli counter may ge[illegible] good shaking up.

By Nicole Har[illegible] in Atla[illegible]

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COMMENTARY

By Keith H. Hammonds

O.K., BASEBALL, YOU'VE GOT ONE LAST CHANCE

I am pleased to announce that on Mar. 31, Opening Day, I will suspend my boycott of Major League Baseball.

Surprised? This time last year, I was the bitter malcontent, betrayed by the guys in pinstripes. In the course of a players' strike and owners' lockout, baseball had sacrificed its 1994 World Series, then put off by three weeks the start of the '95 season. What greed! What arrogance! I was outta there: No more national pastime, live or televised, for this disaffected fan.

The thing is, though, I cherish the sport. I love baseball's democratic sensibilities, its quiet order, its sense of history. I miss the astonishing explosion of perfect green that hits me when I enter a stadium.

I also have a son. And now that Conor is old enough to say "ball," and to throw one (good velocity, no consistency), I'm feeling fatherly urges to show him the ways of the diamond. I want to sit with him in the bleachers, downing hot dogs and surveying the vastness of center field. Call me spineless, but I'm going back. We are.

Some will ask, "Who cares?" Well, the New York Yankees do. "Congratulations!" exclaimed Rick Cerone, erstwhile catcher and now spokesman for the team of my youth, upon hearing of my change of heart. "I'm sure you're not alone," a league spokesman said.

MODEST PROPOSALS. They had better hope so. Attendance was off 20% in 1995, and league revenues were 22% below those of 1993. Now, with season ticket sales for this year up just 6.5%, owners and players are being "careful not to do anything wrong," says Stephen Greenberg, a former deputy baseball commissioner who runs cable's Classic Sports Network. "Everyone realizes the game needs to be back on track."

PLAY BALL: THE AUTHOR AND HIS SON WARM UP PRIOR TO OPENING DAY

If the players walk, I walk. So does Conor. This condition is not negotiable.

Still, baseball has demonstrated an uncanny knack of late for screwing up. We fans don't trust the owners or the stars. An owner-commissioned survey by Penn & Schoen Associates Inc. in February found that one-third of fans intend to follow baseball more closely this season than last—but more than a third feel the sport isn't very committed to them.

Count me in both groups. But my boycott suspension is tied to a few demands.

First: No more lost games. As owners and players try once more to settle on a labor contract, the buzz says a 2.5% payroll tax is on the table. The proceeds would be shared by the teams to provide financial stability to small-market clubs. This would yield in 1997 to a 25% "luxury tax" on team payrolls above some threshold. If talks break down, though, a salary cap plan could resurface. And the union hates the salary cap. "If the cap happens, I can almost guarantee that come July 4, the players will walk," says Brookings Institution economist Henry J. Aaron. Translation: a strike.

If the players walk, I walk. So does Conor. We don't come back. This condition is not negotiable.

STOP BEING JERKS. Demand Two: Focus on the sport. It doesn't bother me that baseball team owners make a mint on TV contracts, or that Bernard Gilkey, whoever he is, will take home $2.78 million for roaming the Mets' outfield this season. Why not if the fans are willing to foot the bill? I just don't want to hear about it. I want to read about the game-winning homer, whether the slider hung, and how many rows back the ball went—but not how much the slam added to someone's bonus. Who asked sports reporters to play business journalist, anyway?

Finally, stop acting like jerks. John Thorn, the editor of *Total Baseball*, a statistical compendium, observes that Americans have been lamenting the moral decline of baseball for more than a century. Who wants their kids watching drug users, wife-beaters, and ill-tempered prima donnas? Why put up with owners who blackmail cities for new stadiums? Conor doesn't need that.

Honestly, I don't hold out much hope that Major League Baseball can meet these conditions. If it doesn't, though, there's a very nice minor league team near us called the Hudson Valley Renegades. I don't know the players' names, and their games don't make the highlight films. But they don't strike. The hot dogs are fine, and the field is intensely green. I think Conor will love it.

Hammonds writes on social issues

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Dividend Growth	★★★★★	★★★★★	–	–
Equity Income	★★★★★	★★★★★	★★★★★	★★★★★
Equity Index	★★★★	★★★★	★★★★	–
Growth & Income	★★★★	★★★★	★★★★	★★★
Growth Stock	★★★★	★★★★	★★★★	★★★
Mid-Cap Growth	★★★★★	★★★★★	–	–
New America Growth	★★★★	★★★★	★★★★	★★★
New Era	★★★	★★★★	★★★	★★★
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THE INTERNET

A WORLD WIDE WEB FOR *TOUT LE MONDE*

The English-only signs on the I-way are slowly coming down

It's lunchtime at the High Tech Café, perched above the lively Montparnasse quarter of Paris. Georges Martin, a cabbie, and a half-dozen others are poring over personal computers and Internet connections. Martin was intrigued by the home page of a taxi service in Vermont. "You can find French services, but with difficulty," says Martin. "But when you look to English, whew—the sources are infinite."

It's little wonder non-English speakers have trouble cruising the Net. Perhaps 80% of Internet sites today are located in English-speaking countries (table). But as the Internet goes global, pressure is building to take down the "English-only" signs. In fact, technology is rapidly evolving that will let people Net-surf in their native tongues. In Europe, for instance, "the Internet has been a bit slow to develop because the perception is that there's too much content in English," says James Lewis, president of Globalink Inc., a Fairfax, Va., translation program company.

Still, the explosive growth of the Internet has made knowledge of English—already the language of international business and science—an even more valuable commodity. In Brazil, for instance, demand for English classes took off about four years ago and has intensified over the past year because of the popularity of the Internet, says Lorna Burleigh, regional director of the São Paulo area for Yázigi language schools, which enroll 110,000 students in Brazil. "Many people who speak English well now want to improve their writing skills to communicate better on the Internet," says Burleigh.

Yet the alternatives to English on the Internet are increasing apace. For example, a wave of new programs will automatically translate E-mail and Web pages from one language to another. "The Internet is the application that machine translation has been waiting for," says Glenn Akers, president of Language Engineering Corp., a Belmont (Mass.) company that is developing a product to translate English Web pages into Japanese. Globalink is about to market a new Netscape add-on that does the same for German, French, and Spanish. Although not perfect, the translations will enable people who aren't fluent in English to navigate the Internet. One reason for such developments: The English-speaking elite in many countries often is not large enough to make English-only online services profitable. "The Net can only achieve a certain level of penetration into non-American cultures if it remains a dominant-English platform," notes Ted Julian, research manager for Internet commerce at International Data Corp.

LE CYBER CAFE: *The lingua franca is English—even in Paris*

BRAZIL ONLINE. Web surfers in France now have access to a new online search engine called Ecila, which lists all Web sites created in France and that are about France, 70% of which are in French. The French-language online service Infonie will soon be branching out to Belgium and Quebec, with plans to e pand to the U.S. as well. "We will op the service up everywhere there is French population of 200,000 or mor says Bruno Bonnell, CEO of Lyon-bas Infogrames Entertainment, which ru Infonie.

English isn't about to squeeze o Portuguese in Brazil, either. São Pau Abril media group is planning a co mercial online service in Portugue modeled after those in the U.S., wh will make its debut in April. "Engl will continue to be important on the ternet here, but it won't be the o thing," says Zeke Wimert, an Ame can expatriate and president of U tools do Brasil, a São Paulo-based so ware consultant.

Japan, which is lagging behind t U.S. in online usage, also is resist the English takeover. Students th study eight years of English, but ma

On Ne Surf Pas Le Ne Ohne Englisch

Where Internet host computers ar located

U.S.	64.0%
OTHER ENGLISH-SPEAKING COUNTRIES	12.7
WESTERN EUROPE*	16.9
ASIA**	4.0
EASTERN EUROPE	0.9
AFRICA/MIDDLE EAST	0.9
CENTRAL AND SOUTH AMERICA	0.6

* Except Britain and Ireland
** Except Australia and New Zealand

DATA: NETWORK WIZARDS, BUSINESS WEEK

Japanese now argue that personal co puters and software are advanc enough to easily run good *kanji*-ch acter programs. "Japan is fighting t concept of English [language dor nance]," says Tony Laszlo, a lecturer Tokyo's Wako University.

All this activity worries those w believe that an English-dominated ternet is the route to a world unit by a single language and instantaneo communications. But in reality, an E glish-only system will discourage u Only the addition of other languages the Internet will enable it to truly b come a global network.

By Michael J. Mandel in New Yo with Edith Hill Updike in Tokyo, I Katz in São Paulo, and Marsha Jol ston in Paris

In technology, there's a fine line between news and history.

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DEALS

ABRACADABRA AT TENNECO

Close your eyes, and it'll no longer be in energy

Tenneco Chief Executive Dana G. Mead made a name for himself as spin-off and cost-cutting master. Now, at 60, he's pondering the boldest move of his career. On Mar. 20, the Houston company's board gave Mead the go-ahead to plan the spin-off or sale of two of its four divisions—accounting for 42% of its $9 billion in revenues.

What's surprising is that Tenneco Energy—the core gas pipeline business Tenneco Inc. was built around—may hit the block, through either a spin-off to shareholders or perhaps an outright sale. Since Jan. 30, Mead has also been readying the spin-off of Newport News Shipbuilding, a major tanker and aircraft-carrier builder. The two deals would pull in up to $2 billion from one-time dividend payments and help lower Tenneco's $3.7 billion in long-term debt.

ENCORE? *Mead hopes to replica his success with Case Equipme in a spate of new spin-offs*

Going ahead with both moves would give Mead, who became CEO in 1994, the cash to further build up the company's packaging and auto-parts businesses, perhaps through acquisitions. By divesting both units soon, he hopes to take advantage of high valuations for defense and natural-gas pipeline stocks. Insiders say neither unit is meeting annual earnings growth targets of 15%.

Some analysts think an outright sale of Tenneco Energy could raise $3.5 billion. Its biggest asset is a pipeline between the Gulf Coast and New England, but it also has regional pipelin Says Tom Matthews, president Texaco Natural Gas Co.: "There pieces of that business we would extremely interested in."

LEGAL BAGGAGE. Still, a fast s isn't guaranteed. The big hurd lawsuits with two natural-gas p ducers claiming Tenneco owes th $1.5 billion under high-priced sup contracts. The suits have hurt Te neco's ability to reach agreeme with current customers to repla contracts expiring by 2000.

Since Mead, a former Internatio Paper executive, joined Tenneco in 19 he has been reversing a trend towa diversification begun in the 1960s. I first task as chief operating officer w prepping the conglomerate's Case Co division for a spin-off by slashing co and improving the quality of its fa equipment. Mead squeezed $2.1 bill from the unit in four stock sales, t final on Mar. 15. Now, he's hoping th his skills as a corporate slim-down art won't fail him at his biggest moment

By Gary McWilliams in Houst

EXECUTIVE SUITE

BACARDI'S NEW CAPTAIN

The family-owned distiller puts an outsider at the helm

When Bacardi Ltd. officials introduced George B. "Chip" Reid Jr. to the workers at its Puerto Rico distillery on Mar. 13 as the next chief executive, the lawyer had a confession to make: He doesn't speak Spanish. But Reid, who will become Bacardi's executive vice-president on Apr. 1 and take over as president and CEO in March, 1997, is undaunted: "I've sent away for the Berlitz foreign-language tapes," he says.

Not only is Reid linguistically challenged, he's not even family. The rum company, founded in 1862 in Cuba by a Spaniard, Don Facundo Bacardi, and now headquartered in Bermuda, is controlled by Facundo's descendants. That this insular company would tap a cigar-chomping gringo from Washington shows just how far it's willing to go to achieve success in a stagnant market.

But Reid, 47, is no stranger to Bacardi. As a partner at Covington & Burling, he brokered a peace accord among warring family factions in the 1980s. He also helped execute a $2 billion purchase of Italy's Martini & Rossi in 1993. All sides in the clan see Reid as neutral. "Chip Reid had the advantage of being an outsider and an insider," says retiring CEO Manuel Jorge Cutillas, 65, a great-great-grandson of the founder.

LEMON-FLAVORED RUM. This support will come in handy. Bacardi's profits, $250 million on sales of $2.5 billion, were flat in 1995. And Bacardi Rum still contributed 32% of revenues. "You can't let your core business decline without doing anything," says Frank Walter, a senior vice-president at New York research Shanken Communications. "Bacardi h to become much more aggressiv Reid's goal: to boost sales by 20%, to billion, by 2000. "We firmly believe t industry is not dead," he says. "It w grow again."

Reid's game plan is to move in other drinks such as Scotch and to d velop more low-alcohol products. May, it will introduce Bacardi Spice flavor-enhanced rum. A year ago, it u veiled Bacardi Limón, a lemon-flavor rum targeted at vodka drinkers. Re also is eyeing Eastern Europe, La America, and the Far East, where hopes an emerging middle class ready for internationally known bran Bacardi's Martini & Rossi acquisiti has already doubled Bacardi's si adding products su as wine and tequ and expanding distribution into I ly, France, and B gium. "We ha some great wea ons," says Re Now, he just has bone up on Spanis

By Mark Lewyn Miami, with Mar Bird in San Juan

MIXOLOGY

CEO Cutillas tapped Reid, the company's ex-lawyer, to mastermind its expansion into new products

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EDITED BY KELLEY HOLLAND

IF VALUJET CAN MAKE IT THERE...

VALUJET AIRLINES IS BITING into the Big Apple. After leasing landing slots from Continental Airlines, the upstart is launching five daily flights to LaGuardia from its base in Atlanta, where it was launched in October, 1993. ValuJet promises fares up to 65% below Delta Air Lines, the only line now flying Atlanta-LaGuardia nonstop. A lawsuit claiming TWA and Delta conspired against ValuJet could net the carrier five more landings this summer. The fast-climbing company is having growing pains, though. The Federal Aviation Administration is eyeing ValuJet's safety record and procedures after four recent mishaps, including an engine fire, a landing with no nose gear, and a plane sliding off a runway. An FAA official says no negligence has been uncovered, but the review is ongoing.

CLOSING BELL

BOUNCED?

Second thoughts about a huge check-processing contract are unsettling investors in Fiserv. Chase Manhattan signed a 12-year, $480 million contract with Fiserv in 1995, but now Fiserv says the deal could be a casualty of Chase's merger with Chemical Bank. Fiserv stands to receive an undisclosed cancellation penalty if it is jilted, but worries about the Chase contract hit the stock hard. Fiserv shares fell as low as 25⅝ from 30⅞ on Mar. 1, though they had recovered slightly, to 27, by Mar. 19.

$254 MILLION UP IN SMOKE?

THEY WERE A MODERN-DAY Bonnie and Clyde—minus the gory fade-out. On Mar. 19, agents from the FBI arrested two people who may have defrauded a syndicate of banks out an estimated $254 million since 1993. Edward Reiners and Judy Rose Bachiman allegedly posed as Philip Morris employees to borrow from a group of banks led by Richmond (Va.)'s Signet Bank. Signet could be out $81 million, while NationsBank has a $60 million exposure. The banks say they expect to recover much of the money.

WHERE TO BUY YOUR SPACE SHUTTLE

WHAT A DIFFERENCE A MONTH makes. As recently as February, Rockwell Chief Executive Donald Beall was insisting the $13 billion electronics firm was in no rush to sell off its defense and aerospace businesses. Now, though, investment bankers say the company wants to hawk its $3.5 billion portfolio of B-1 bombers, space shuttles, and guidance systems. The move would let Rockwell focus on industrial automation and automotive work—but it comes late. A wave of mergers in the industry limits potential buyers. Possible bidders: Boeing or McDonnell Douglas.

A JURY LEAVES 'EM FLOORED AT FLEMING

FLEMING COS. GOT A ROTTEN surprise on Mar. 15 when a Texas jury ordered the distributor to pay at least $100 million in punitive damages for overcharging David's Supermarkets, a small Texas supermarket chain. The award came after Fleming was assessed $158.3 million in actual damages. In a 1993 suit, David's accused Fleming of artificially inflating manufacturers' invoices, forcing David's to raise prices and lose customers. The penalty dwarfs Fleming's earnings, which totaled $42 million in 1995. Fleming CEO Robert Stauth labeled the verdict, which the company plans to appeal, "absurd."

HEADLINER: LOUIS SIMPSON

THIS SAGE ISN'T FROM OMAHA

Louis Simpson has moved from the sidelines to the spotlight at the stroke of a pen—billionaire Warren Buffett's pen. Simpson, president of capital operations for Geico, has been beating the stock market since at least 1980. But Geico became a subsidiary of Berkshire Hathaway last fall—and in his annual letter to shareholders, Berkshire CEO Buffett says Simpson, 59, would be a worthy backup for him and Vice-Chairman Charlie Munger.

Buffett, arguably the nation's top investor, writes that Simpson is "immediately available to handle [Berkshire's] investments if something were to happen to Charlie and me." Like Buffett, Simpson gets to know management at companies he invests in and makes long-term stock picks.

Munger says Buffett was not making Simpson his heir apparent, however. "We could have done [that] directly and not in some crazy, indirect way," he says. Buffett apparently just wanted to reassure shareholders that Berkshire's $22 billion in common-stock investments will remain in capable hands. Quite a plug for Simpson.

By Greg Burn

THAT'S THE WAY THE CRACKER CRUMBLES

BAD BREAKS FOR ANIMAL crackers. Consolidated Biscuit has voluntarily recalled five varieties because they had egg whites in them, a risk to people allergic to albumen, and a production snafu left that information off the label. Getting the crackers off market faster than two two could be tough, thou "Many consumers don't w to send the boxes back" wl they find out that the o problem is undisclosed e white, says Bruce Olsen, C solidated's vice-president sales and marketing. Anim cracker lovers need not wo too much, though: There lots of rivals in the busine so there will still be ple of lions, tigers, and bears your local supermarket.

ET CETERA...

- Blockbuster CEO Steven B rard is leaving to run us car chain AutoNation USA.
- Strong underwriting a trading hiked Lehman Bro ers' first-quarter profits 13
- Digital Equipment said results will be hurt by sl gish PC sales.
- Congress is set to pass product-liability reform bill late March.

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A GOOD CHOICE FOR YOUR IRA, 401(k), 403(b), OR SEP/SARSEP

ITED BY OWEN ULLMANN

EROT'S SWORD OULD CUT BOTH WAYS

t the White House these days, President Clinton's campaign crew is cheering Ross Perot on as he edges toward a second independent Presidential run. Their logic is ple: The maverick Dallas billionaire would steal votes n all-but-certain Republican nominee Bob Dole, guaranteeanother plurality victory for Democrat Clinton.

GOP operatives buy the same argument. But before the ntonites break out the champagne and Dolies go into a k, they should rethink this scenario. Growing evidence gests Perot could siphon support from both parties—and ght even cost Clinton the election. nsider a Mar. 15-17 Gallup poll of 1,008 lts that gives Perot 16% in a threey race. Half of his support comes from se who would otherwise vote for Clin-, while 38% comes from those favor- Dole in a two-man contest.

TSIDER. Perot certainly sounds ready. Mar. 19, he said he'd "give it everyng" if his Reform Party drafts him its Presidential nominee. Dole, fearing Perot factor, said he'll try to disde him.

But Clinton may stand to lose, too. uis Harris pollster David Krane says Perot's strength is ong independents, young voters, blue-collar men, suburbans, Midwesterners, and those earning $25,000 to $35,000 a r—groups critical to Clinton's bid. Among these middle-ine workers, says Krane, Perot draws more votes from nton than from Dole. That spells trouble for Clinton in the tleground states of Michigan, Ohio, and Illinois, which re key to his 1992 win and will also be decisive in '96.

What's more, Perot hopes to adopt once again the "outsid- label—something neither incumbent Clinton nor veteran le can now claim. "Both should be nervous," says Univer- y of South Carolina political scientist Blease Graham.

Perot's outsider status could hurt Clinton most with independents. Without the billionaire in the race, Clinton clobbers Dole among these swing voters, 63% to 30%, according to Gallup. But in a three-way race, the President's lead over the Kansan shrinks to 47% to 24%, with Perot garnering 27%.

California, the cornerstone of Clinton's Electoral College strategy, could also turn sour for the President. A recent Field Poll showed Perot taking 7% from Clinton and 6% from Dole. What's more, Green Party candidate Ralph Nader wins 6% support—virtually all from the President's column.

DEM BUSTER? *Perot could hurt Clinton*

Perot bristles at gripes by Republicans that he's a spoiler who would only reelect Clinton. In a Mar. 8 interview with BUSINESS WEEK, he said his ability to draw from both parties is "one of the best-kept secrets in American politics. Just look at the facts." The mythology about him as a GOP-killer dates from 1992, when George Bush's aides blamed their loss on Perot's 19% vote. Yet exit polls showed that Perot voters would have split evenly at 38% for Clinton and Bush had he not run. Most others would have stayed home.

That doesn't mean Dole shouldn't worry about Perot. Pollster Gordon S. Black says Perot's hard-core backers lean Republican, which means the lower Perot's support, the more it's likely to hurt the GOP. A recent Mason-Dixon poll shows Perot gets only 5% support in Maryland and 9% in North Carolina—virtually all from Dole. But as the Texan's vote increases, Clinton suffers. Explains Black: "At 14%, Perot pulls more from Dole than from Clinton. At 17%, he pulls equally from both candidates." At 20%, "he begins to pull more from Democrats."

So how should the major parties calculate the Perot factor? Clinton should want Perot to run—but not too well. And Dole should pray the Texan skips the race—or runs a strong third. For now, Perot is keeping them both guessing.

By Richard S. Dunham

CAPITAL WRAPUP

HE GOP'S MEAN MACHINE

Enjoying the spoils of being the ajority party, Republicans are leavng the Democrats in the fund-raising ust. Last year, a new Federal Elecion Commission report shows, GOP Iouse candidates and their party's ongressional campaign committee aised a record $96.4 million, up from 50.1 million in 1993. House Demorats and their campaign committee ulled in just $55.2 million last year, own 9% from $60.5 million in '93, vhen the Dems ruled Capitol Hill.

DOLE: YOU CAN BE TOO OLD

▶ Guess who'll be arguing on the Senate floor soon that age makes you unfit for some jobs? The GOP's 72-year-old standard-bearer, Bob Dole. The Kansan backs a measure that would exempt firefighters and cops from age discrimination laws and let cities set mandatory retirement ages. The measure is being pushed by the International Association of Firefighters. The group prefers the bill to fitness tests, which critics say younger but flabbier firemen might flunk.

LIGHTS OUT AT COMMERCE?

▶ With Capitol Hill Republicans trying to dismantle the Commerce Dept., high-level officials are bailing out. Those who have already departed in recent months include Deputy Secretary David J. Barram; top trade honcho Jeffrey E. Garten and his deputy, David J. Rothkopf; Jonathan Sallet, director of policy and strategic planning; and General Counsel Ginger E. Lew. Melissa Moss, the agency's chief business liaison, is also planning to leave in the near future.

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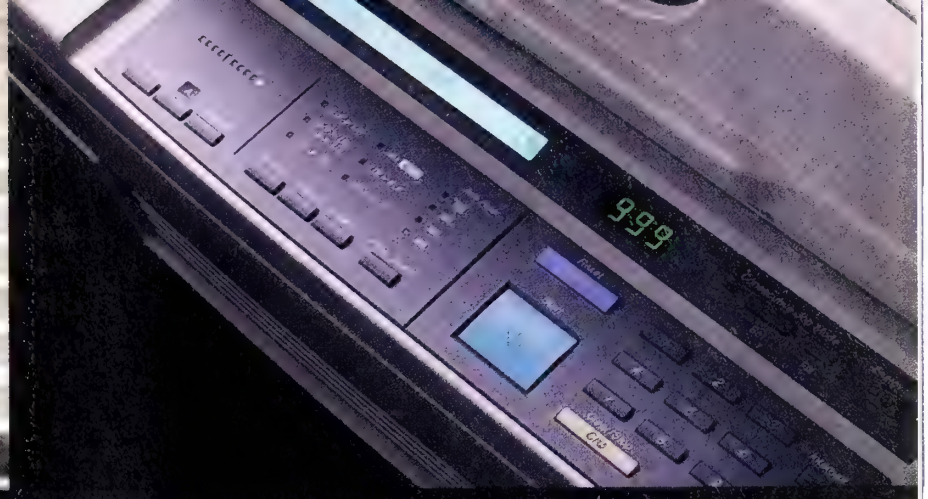

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ASIA

YANKEE, DON'T GO HOME

Asia looks to the U.S. for security again

For years, Washington seemed to be gradually folding up the security umbrella that protected U.S. allies in Asia. U.S. military personnel dwindled to 100,000, and the ship count of the Navy's Pacific Fleet sank from 250 in 1991 to 196 today. With policymakers focused on Central Europe and the Middle East, the Clinton Administration's Asia policy seemed to be a simple one: Only trade counts.

But that changed suddenly when the the U.S. dispatched two carrier groups in response to Beijing's military exercises aimed at intimidating Taiwan's voters. Events are forcing the Administration to view the region through a different prism. Asian nations fear China could threaten critical shipping lanes as much as they fret about Japan rearming to protect itself against the Middle Kingdom.

PERRY HAS KEPT OPEN THE BACK CHANNELS WITH CHINA

Many Asian leaders, whether publicly or privately, are saying that only the U.S. can serve as a counterweight to China and Japan, guaranteeing a peaceful transition into the 21st century. Getting those complex relationships right is now back on Washington's front burner: A series of high-level meetings between U.S. and Chinese officials is on tap, just as President Clinton tries to shore up Japan's status as a security linchpin during an April 16-17 visit. "If this triangular relationship is in balance, the rest of East Asia will be stable," says Lee Kuan Yew, Singapore's former Prime Minister.

Such an approach is something Administration critics have long demanded. But it carries grave political risks for the President. As he tries to assure China he is not bent on containment, the GOP-controlled Congress is readying to blast him for appeasement. Even though there are signs that military tensions are easing, the House voted 369 to 14 on Mar. 19 to assist Taiwan if China attacks. Republicans on the campaign trail are sure to label Clinton "soft" if he makes any compromises on trade issues. "The stars are not in perfect alignment here," concedes a senior Administration official. "This is an election year."

The largest display of U.S. military power in Asia since the Vietnam War is also likely to revive the American debate

about whether the U.S. should spend so heavily to guarantee Asia's prosperity. Getting Japan and others to defray some of the costs could take on renewed urgency. And in view of huge trade imbalances, trade hawks could press the Administration to leverage its military strength to pry open more markets.

UPBEAT. The Clintonites, however, are proceeding cautiously in view of Asian ambivalence toward the U.S. military presence. Trade officials, far from pressing on sensitive issues with Japan and China, appear to be holding fire at least temporarily. The payoff for the U.S., they say, is stable markets. America can create more export-related jobs if "people in Asia are concentrating on getting rich, rather than attacking each other," says a top Administration official.

Trying to assuage irritants, U.S. Trade Representative Mickey Kantor has delayed slapping sanctions on China for ripping off compact disks and other copyright infringements. The Admin tration is going to make a big push renew China's most-favored-nation pr ileges. U.S. officials also are playing the fact that the deficit with Japan is clining and that exports to that cou try are up 80% in products covered the 20 trade pacts Clinton has signed

The upbeat spin on trade will set t stage for Clinton and Prime Minist Ryutaro Hashimoto to sign an agre ment keeping all 47,000 U.S. soldiers

THE U.S. FLEXES ITS MUSCLES IN ASIA

- President Clinton has two carrier battle groups patrolling the seas near Taiwan
- An accord to maintain U.S. troops will dominate the agenda when Clinton meets Japanese Prime Minister Ryutaro Hashimoto in Tokyo in mid-April
- The Pentagon insists U.S. troop levels in Asia will not fall below 100,000
- Defense Secretary William Perry has suggested a meeting of Asian and U.S. defense ministers

DATA: BUSINESS WEEK

Most Pacific nations don't want to choose between the U.S. and China, so Washington has to walk a tightrope in providing military support

CHINESE SOLDIERS ON MANEUVERS, AND A U.S. AIRCRAFT CARRIER IN THE SOUTH CHINA SEA

ıpan. Negotiations over those forces ave been complicated by outrage over ıe rape last year of a 12-year-old Okiawan girl by American GIs. Partly beause of China's saber rattling, Japan eems eager to keep the troops, although ome may be moved from the hostile nvirons of Okinawa.

Washington and Tokyo remain divided ı some key defense issues, however. ike most countries in the area, Japan oesn't want to choose between the U.S. and China. So while Tokyo will provide logistical support for routine war games, it may balk at exercises designed to send a message to Beijing. If Japan were asked to play a combat-support role, "that's probably against the present policy of the government," says a Foreign Ministry official.

Washington may have to walk a similar tightrope with other Asian nations. While Singapore has few qualms about letting U.S. ships dock there, feelings are mixed in Indonesia. It did let the U.S.S. Blue Ridge, the 7th Fleet command ship, dock in Jakarta recently, but Marines on board felt obliged to put a fresh coat of paint on a mosque to preserve goodwill. A prolonged presence would not go over well. "We want the U.S. to be on tap but not on top," says Juwono Sudarsono, vice-governor of the National Resilience Institute, an army training school.

TOUGH NUT. China remains the toughest nut to crack. U.S. officials now expect Chinese exercises to continue at least through Taiwan's Presidential inauguration in May. Some experts worry that dispatching ships may have hurt relations. "We've gotten away from a political approach to the issue of Taiwan," frets Richard Solomon, president of the U.S. Institute of Peace. "It's been remilitarized."

But sources say new Ambassador James Sasser in Beijing hopes to discuss common interests such as a nuclear-free Korean peninsula and economic issues that need resolution. Secretary of State Warren M. Christopher and Assistant Secretary of State Winston Lord took the same tack in early March with Liu Huaqiu, director of foreign affairs for China's State Council. Christopher will meet Foreign Minister Qian Qichen in the Netherlands on April 21.

Another key player in managing China relations may be Defense Secretary William J. Perry, one of the few U.S. officials with standing in Beijing. He has maintained ties through difficult times. During the height of Chinese exercises off Taiwan, a delegation of U.S. military medical personnel visited China. And General Chi Haotian, China's National Defense Minister, is expected to visit the U.S. in early April. Some experts believe it was Perry-backed military-to-military talks that produced assurances Beijing wouldn't attack Taipei.

But Perry can't shoulder the entire burden. Ultimately, the key decisions—and overall coordination—will have to come from the Oval Office. "We should have a clear authoritative statement from the President on what we expect of the U.S.-China relationship," says Representative Lee H. Hamilton (D-Ind.), ranking member of the House International Affairs Committee. If Clinton gives one, it would send a clear signal that investment and trade work in Asia only in a stable environment—and the U.S. plays a critical role in providing it.

By Stan Crock and Amy Borrus in Washington, Brian Bremner in Tokyo, Helen Chang in Singapore, and Michael Shari in Jakarta

THE INTERNET

THE TAIWANESE FIGHT FIRE WITH WIRE

They're using the Web to protest Chinese bullying

Many university students in Taiwan know him only as "the Webmaster." J. B. Lin, a 29-year-old PhD candidate in economics at Michigan State University, stays incognito while using the Internet as a weapon against China's missile tests. The Taiwanese-born Lin recently came up with a hard-hitting World Wide Web page called "China, Keep Your Bloody Hands Off Taiwan." With its bold graphics and abundance of military, historical, and political data, the site is a one-stop cybershop for anyone sympathetic to Taiwan. "Everybody needs better access to information about what is happening and what they can do about it," says Lin. "I want to be a communications center."

Known for their high-tech prowess, the Taiwanese are taking political protests to new heights. While fax machines helped undermine communist regimes in the former Soviet bloc, the well-to-do Taiwanese prefer the Internet as the chosen medium for high-impact protests. They're way ahead of Beijing, which is tightening control over the Internet because it fears the kind of information disseminated by Taiwan's hackers. From Buddhist sects to American-based scholars, Taiwanese groups are going online to express their outrage. "Taiwan is definitely very wired," says Ken Adler, a Hong Kong-based managing director for Penril Datability Networks, a maker of networking products.

URGING SURFERS. Lin's Web site is the most impressive. Once he got rolling with his home page on Mar. 8, Taiwanese around the globe started feeding him information. Now the page (http://www.taiwanese.com/protest/), includes everything from illustrated details of Beijing's military maneuvers to the latest news reports. Lin lists anti-China protests around the world and urges surfers to write to leaders in China and the U.S. With a click you can find the phone number of Chinese Foreign Minister Qian Qichen (861-513-5566) or the E-mail addresses of 72 members of the U.S. Congress. Click again and you're provided with sample letters to President Clinton and Republican rival Senator Bob Dole. Since Mar. 6, the page has already received nearly 22,000 "hits."

CYBERACTIVISM Taiwan's protesters may be largely preaching to the converted, since the Chinese government sharply restricts access to the Internet

LIN'S PAGE (LEFT) AND ONE FROM FRIENDS OF BUDDHISM

Like Lin, many of the creators of the protest home pages are Taiwanese students in the U.S. Some ask browsers to sign petitions against China, while others call for a nonviolent resolution to the conflict. "Don't let the Communists commit genocide, destroy Taiwanese culture, and take away freedom of religion," writes the Friends of Buddhism, a group based in the U.S. (www.infinet.com/~rinpoche/free.htm) That doesn't include the various newsgroups, where heated arguments—many of th off-color—are taking place on the cri

The Taiwanese are not the o Asians who are turning to the Net political protests. BurmaNet, a Ba kok-based service (sunsite.unc.edu.f burma/bnn/bnn.html.) chronicles hum rights abuses in Myanmar, as the co try is now officially known, while East Timor Action Network (csch er@igc.apc.org) is devoted to cha pioning the cause of the former Por guese colony taken over by Indonesia years ago.

NOT AMUSED. But given Taiwan's par ular penchant for high technology, Net is a natural communications out One in 10 households owns a comput and there are 350,000 Internet use That could be why T wan's top three politi parties have home p es designed in part bolster their candida in the upcoming pre dential elections.

Even so, the au ence for these pag may be very limit Many observers beli the Taiwanese mainly preaching to converted. Users China are unlikely have access to the Web sites, since m of them are academ limited to using Net for research. Ma Chinese students ov seas who can read L site aren't amused. " have the power to Taiwan back today, if necessary, we will it," an angry mainla student in the U.S. mailed Lin. Anoth Chinese student in pan lamented the f that Lin used a logo a Chinese flag with X over it.

Lin is undaunted. China continues ratchet up the tensi he has more cyberd zle in mind. Wha next? He's preparing a 3-D graphic o burning Chinese flag. Putting that the Net might lead mainland Chine students in the U.S. to launch th own protest page against Taiwa Webmaster.

By Joyce Barnathan in Hong Ko and Margaret Dawson in Taipei

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Pa-long Tribe, Northern Thailand

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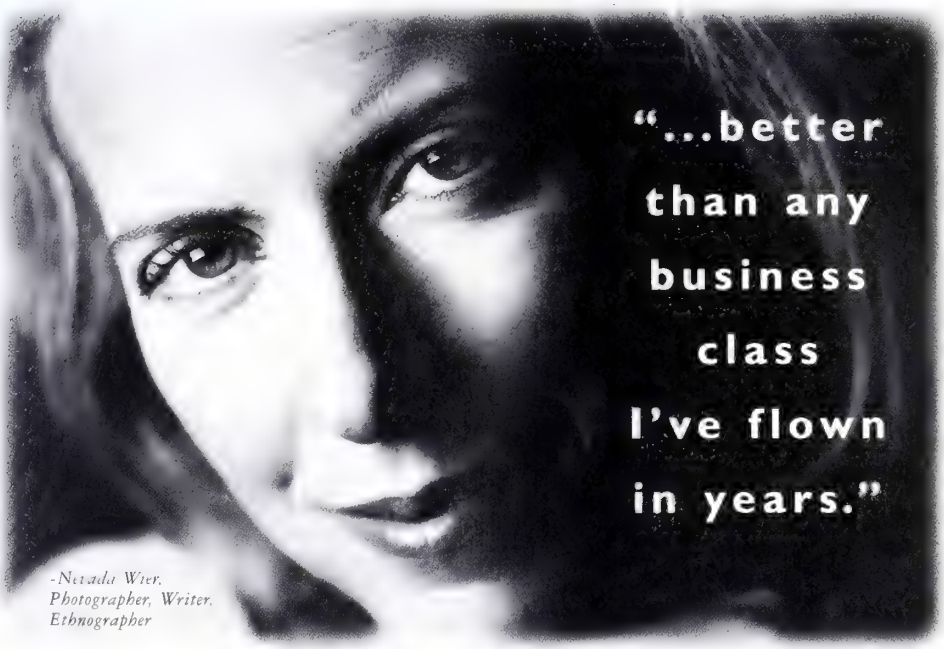

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CRUCIBLE: *Top nickel producer Norilsk is caught in a power strugg*

RUSSIA

THE BATTLE FOR RUSSIA'S WEALTH

Can rich new capitalists weather a popular backlash?

Russia's answer to J.P. Morgan could not be less like the eccentric, bulbous-nosed original. Vladimir O. Potanin is a shy, athletic man of 35. Holding court in his rose-wood-paneled office on Moscow's Masha eva Street, the Oneximbank pres- tly gives instructions to two ls at his door. Cool and con- Potanin is a standout in a group businessmen who have seized large slices of the economy.

ars after the fall of Commu- nism, makers such as Potanin are at r of a fierce battle for Rus- sia's wealth. Having amassed cash in the chaotic early years of Russia's economic transformation, they have scooped up formerly state-owned oil, mining, forest products, and real estate assets to create financial-industrial conglomerates that resemble Japan's prewar *zaibatsu*.

About 32 of these giants have taken shape, linking more than 500 factories and 72 banks and employing more than 2.5 million people. Dozens more are being formed. The top six already control Russia's oil, gas, and metals industries (table) and bring in the bulk of the country's hard currency.

These titans of industry and their companies are symbols of the new Russian capitalism. Each has political "- cles," or *dyadyas*, in the governme And they use their contacts to win pr ileges: tax concessions, protection measures against foreign competito exemptions from duties. Gas monop Gazprom, whose patron is Prime Minis Viktor S. Chernomyrdin, has paid har any taxes since 1993, for example. new headquarters, a $150 million sl scraper, towers over southwest Mosc

BITTER REMINDERS. Such jarring sy bols of wealth are fueling a backla against capitalism. Russians who o made fun of Communist leaders n joke about the New Rich, with th vulgar, free-spending ways. But to ma Russians, the disparity between r and poor is no laughing matter. though stores, unlike before, are full goods, many people can't afford the To *babushki* selling vodka on the str to supplement their pensions, eve Mercedes zooming by is a bitter rem der of a more stable time.

Opponents of Russian President B is N. Yeltsin are making the most the discontent, with Communist Pa

The Key Conglomerates Vying for Russia's Riches

ROUP/CEO	INDUSTRIAL HOLDINGS	POLITICAL PATRONS
NEXIMBANK ladimir Potanin	Most powerful group with 38% of Norilsk Nickel, 26% of jet-engine maker Perm Motors, 26% of auto maker Zil, plus oil, metallurgy, and real estate interests	Tightly linked to Kremlin
IENATEP ikhail hodorkovsky	Most diversified conglomerate, with 78% of oil giant Yukos, plus controlling interests in plastics, metallurgy, textiles, chemicals, and food-processing companies	Close to former Communist apparatchiks
LFA ikhail Friedman	Big player in Moscow region, with interests in real estate, securities trading, cement, candy, and chemicals industries	Lacks good connections at national level
OSSISKAYA IETALLURGIA o CEO	Controversial group created by Kremlin decree; links 14 institutes and troubled plants producing steel, alloys, and other metals	Deputy Prime Minister Oleg Soskovets
IOST GROUP ladimir Gussinsky	Active in Moscow, its interests include banking, real estate, government, construction, independent television network NTV, and the influential daily newspaper *Today*	Close ties with Moscow Mayor Yuri Luzhkov
AZPROM em Vyakhirev **UKOIL** agit Alikperov **MPERIAL BANK** ergei Rodionov	Very powerful but loosely tied together, this group links Russia's gas monopoly, its largest oil company, and their jointly owned bank; it has big export clout, with Gazprom supplying gas to Europe and Lukoil in oil deals in Libya and the Persian Gulf	Prime Minister Viktor Chernomyrdin

ef Gennady Zyuganov leading the y. Yeltsin's main rival in presidential ctions in June, the former school- cher rails about the "mass plunder" Russia's wealth. He is also targeting new capitalists. Zyuganov has called a review of the controversial loans- -shares privatization scheme, which owed private banks to snap up lucra- e shareholdings at rock-bottom prices exchange for low-interest loans to government. Now, some business- ople fear that a victorious Zyuganov uld launch a witch hunt for free-mar- teers. "If Zyuganov wins, I am emi- ating," claims one leading executive. The upcoming election could turn out be a defining mo- ent in Russia's tran- ion to free markets. uganov, who is lead- g in the polls, has edged not to turn clock back to full ate ownership of the onomy. But he might me under pressure m his party's left ng, which could push n to nationalize operty, reintroduce price controls or take over the banks.

There's no doubt that the stakes are high. Throughout Russian history, the battle for political power has revolved around control of Russia's property. When the Bolsheviks seized power in 1917, they nationalized scores of private enterprises. When communism fell in 1991, Yeltsin's government grabbed Communist offices, dachas, and businesses. As other former Soviet republics declared independence, the party lost an entire empire of assets.

With June's elections, then, the Communists may have their first big chance to settle scores. But during Yeltsin's presidency, one crucial thing has changed: State ownership of the economy has dropped from close to 100% to about 30%, through one of this century's most sweeping privatization programs.

To be sure, Yeltsin's reformers failed to create the transparent Western-style market economy they envisioned, with a middle class of shareholders that would have wanted to defend capitalism and democracy. Instead, a more concentrated, shadowy, and oligarchic form of capitalism dominated by a small group of powerful shareholders has emerged.

Zyuganov will have a tough time deciding what to do about the conglomerates if he wins the election. For starters, he is probably receiving money from them. Although they won't talk about it, big businesses are helping to finance the campaigns of Yeltsin, Zyuganov, and other candidates. Says one prominent banker: "You can say there's a little bit of diversification of the portfolio going on."

***PERESTROIKA* START.** What's more, Zyuganov would run into former comrades among Russia's capitalist barons. The new elite includes shrewd industrialists who were once members of the old structure. Some were party members and managers who adapted quickly to the new market climate. Others got their start through the Young Communist League, which supported young businesspeople as part of Mikhail Gorbachev's *perestroika* reforms in the late 1980s. Indeed, the powerful Menatep Bank began as a scientific center in a Young Communist branch where Menatep President Mikhail B. Khodorkovsky, then a chemistry graduate student, was active.

Menatep earned its first profits doing research for Moscow-area factories. It then became one of the first groups to get a banking license under another Gorbachev experiment in 1988. The bank was rumored to have helped the Communist Party funnel funds to the West, but Khodorkovsky always denied it. Menatep grew fast as it lent money and traded currency in the era of high inflation and interest rates in 1992-93.

Now, Menatep is Russia's 10th-largest private bank and runs the most diversified conglomerate in the country. Its assets, which totaled $2.1 billion in 1995, include the 19th century castle that served as Young Communist headquarters in Moscow. Menatep also controls more than 20 companies in

Titans of Industry

Both new-style bankers like Potanin and old-style bosses like Soskovets use their clout to win privileges for their groups

POTANIN

SOSKOVETS

chemicals, textiles, and food. Its crown jewel is Yukos, Russia's No. 2 oil company, worth some $700 million. In December, Menatep and its allied banks picked up rights to 78% of Yukos for $350 million in loans and promised investments.

It's hard to say whether Zyuganov would seize Menatep. Although the party's platform calls for strategic companies, including energy, to be returned to state hands, Zyuganov has also said he won't tamper with private companies that perform well. Should he become president, then, he may pick and choose which companies to target for interference.

There are also economic reasons why curbing the conglomerates might prove difficult. Although controversial, the groups play a key economic role. With foreign investment at just $1 billion a year, the government in debt, and Russia's capital markets too illiquid to tap, the groups are channeling capital, technology, and new management into enterprises sorely in need of restructuring.

RED DIRECTORS. Many observers see the Russian-style *zaibatsu* as potential engines for spurring an economic revival. Since Yeltsin launched his reforms on Jan. 2, 1992, Russia's gross domestic product has plunged 19%, with industrial production falling 40%. While the decline is still serious in industries such as machine building, many believe the economy has hit bottom and could grow next year.

Much depends on attracting investment to boost production rather than allowing it to be siphoned off by corrupt managers. Indeed, a major debate is heating up about so-called Red Directors, Communist-era managers who bought shares at low prices and [illegible] held onto their jobs when their enterprises were privatized in 1992-93. [illegible] have been bleeding their companies and refusing to pay workers. But [illegible] shareholders build up con[illegible] stakes, they are pushing to oust the old bosses.

Potanin's Oneximbank is waging a public campaign against the Red Direc[illegible] in wants to oust General Director Anatoly Filatov, 60, and other top managers of giant Norilsk Nickel, which Oneximbank acquired in a loans-for-shares deal in December. Potanin says the managers allowed $1 billion in debts to accumulate, even as pretax profits doubled, to $1.16 billion, in 1995.

Potanin, a former Soviet bank official, is no angel himself. In an auction that the bank itself ran, Oneximbank offered a $170 million loan for a 38% stake in Norilsk. Another bank, Rossiskiye Kredit, complained bitterly that Oneximbank refused to consider its bid for twice as much because it arrived 20 minutes after the deadline.

Nevertheless, Potanin has big plans for Norilsk. He wants to put together a $1 billion syndicated loan to modernize the company, which was built in the 1930s above the Arctic Circle. Although Norilsk is already a global metals player, Potanin thinks he can retool it to make it even better—and an example for the rest of his group. Since bringing together cash-rich former Soviet trade associations to create Oneximbank in 1993, Potanin has bought 30 companies. His goal is to build a group that will trade goods and resources in global markets. "You're seeing the beginning of Russian transnational co[illegible]panies," he says.

If Potanin wins his fight with N[illegible]ilsk's management, it will mark a tu[illegible]ing point for Russia: The new elite of [illegible]nanciers will have gathered enou[illegible] strength to curb long-entrenched indu[illegible]trial managers. But the Red Directo[illegible] aren't giving up easily. In some indu[illegible]tries, they have created their own co[illegible]glomerates, with the backing of key f[illegible]ures in Yeltsin's government. Fi[illegible] Deputy Prime Minister Oleg N. Sos[illegible]vets—Yeltsin's campai[illegible] manager—is behind [illegible] group linking 14 met[illegible] plants and institut[illegible] most of which are losi[illegible] money. Soskovets wa[illegible] Yeltsin to boost subsid[illegible] and protection for Ru[illegible]sian industry.

Russia's econon[illegible] landscape will thus po[illegible] uncomfortable choices [illegible] the next president. Russ[illegible] watchers see both dark a[illegible] bright possibilities. If Zyug[illegible]nov is elected and gets pull[illegible] to the left, Russia could plun[illegible] into chaos. The renationali[illegible]tion of property could lead [illegible] civil war, some observers wa[illegible]

WESTERN MODELS. Yet there [illegible] also an optimistic view. If Ye[illegible]sin wins, he could push for [illegible] faster industrial shakeup, op[illegible] trade, and a better investme[illegible] climate. That could attra[illegible] some of the more than $80 b[illegible]lion Russians have bank[illegible] overseas. Russia's econor[illegible] could take off at a 3%-4% cl[illegible]

The hope of less sangui[illegible] observers is that Russia w[illegible] continue to muddle through [illegible] effort to develop free marke[illegible] This could happen if eith[illegible] Yeltsin or Zyuganov wins t[illegible] presidency and adopts a ce[illegible]trist course. Then Russia wou[illegible] zigzag between reform and [illegible]trenchment—just as it has since 199[illegible]

Russia is developing its own versi[illegible] of capitalism, and conglomerates are, [illegible] now, leading the way. Unless a Comm[illegible]nist backlash sets in, they will eventu[illegible]ly try to model themselves after We[illegible]ern and Japanese groups like Siemen[illegible] Mitsubishi, and United Technologi[illegible] Potanin's Oneximbank is the beginni[illegible] Now, as ever, Russia's future depends [illegible] who wins the battle for its wealth a[illegible] what the victors make of it.

By Peter Galuszka in Moscow a[illegible] Rose Brady in New York

YELTSIN

ZYUGANOV

Three Scenarios for post-Election Russia

THE REDS COME BACK

Communist Party leader Gennady Zyuganov is elected President but is pushed aside by hard-line leftists. Limited renationalization begins, while big state spending hikes inflation. Political reform takes a step backward as economic progress made in 1994-95 is wiped out. Conglomerates survive but are harassed.

YELTSIN WIN SPURS ECONOMY FORWARD

President Boris Yeltsin wins reelection and uses his mandate to renew economic-reform efforts. The economy begins growing by 3% to 4% in 1997. Conglomerates thrive and evolve, sooner than expected, into true transnational corporations with global clout.

RUSSIA MUDDLES THROUGH

Either Zyuganov or Yeltsin wins, but the vote is so split that economic reform is held in check. Progress is made in fits and starts, jerking between state bailouts and monetary discipline. Inflation stays low, but the economy doesn't grow, either. Conglomerates still do well, thanks to their close ties to state bureaucrats.

DATA: RENAISSANCE CAPITAL GROUP, BUSINESS WEEK

Your business can spend years trying to figure out the intranet, or a few minutes with someone who already has.

The intranet. Everyone's talking about it, but few are taking advantage of it. Whether you're talking business-to-business, or business-to-consumer, Sun can show you the opportunities associated with the intranet, and then provide you with the products, service and support to help you implement those solutions. Everything from industry-leading, easy-to-use Netra™ servers and key industry partnerships, to the revolutionary Java™ technology, and SunScreen™ and Solstice™ FireWall-1™ security products. So don't waste time and resources trying to re-create the wheel, call Sun. After all, we're the intranet experts–we helped invent it. For more information about Sun or business solutions already in place, contact us at http://www.sun.com or 1-800-786-0785, Ext. 370.

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EDITED BY STANLEY REED

IS THIS THE MAN TO TOPPLE MEXICO'S RULING PARTY?

In early March, Mexico's National Action Party (PAN) chose a respected 33-year-old lawyer and former congressman, Felipe Calderón Hinojosa, as its president. The PAN's choice of a young, energetic leader can only mean one thing: After more than a year of economic woes, Mexico's political arena is likely to heat up.

During its 50-year history, the pro-business PAN has been dogged by a reputation for collaborating with the Institutional Revolutionary Party (PRI). But now, Mexico's leading opposition party sees a chance to break the PRI's more than six-decades-old grip on power. After taking over the PAN, Calderón showed his intention to play hardball, saying he would continue to boycott the political-reform talks with the PRI until the ruling party stops its electoral shenanigans. "We wanted to give a very clear signal against the double-talk of the government," he says.

Calderón, who despite his youth is a longtime senior PAN official, inherits a political base that has grown fast during the past two years of turmoil. The party controls all of the major cities except the capital and 4 of the 32 statehouses. PAN elected officials already govern some 30% of Mexicans at the state or local levels. Now, Calderón will try to orchestrate the leap to national power by gaining a congressional majority in August, 1997. Then he'll run the party's presidential campaign in 2000, though he's unlikely to be the candidate. "There's a great probability we'll win the presidential vote," Calderón confidently predicts.

YOUTHFUL: *Calderón (left)*

"VERY SERIOUS BLOW." In the meantime, Calderón's aggressive approach is likely to add to the problems of President Ernesto Zedillo Ponce de León. The shaky Zedillo has already made economic concessions to nationalists that would have been unthinkable to his predecessor, Carlos Salinas de Gortari. Just recently he moved to restrict foreign ownership of privatized petrochemical plants. He also promised that only Mexican firms will be allowed to manage the p vate pension funds the government wants to launch.

Calderón couldn't ask for a better moment to begin quest. The government predicts a 3% first-quarter slide the economy after last year's 6.9% drop. That weakness and stream of revelations about corruption in the Salinas admin tration have Mexicans clamoring for change. Labor, farme and Big Business are no longer the reliable PRI backers th once were. "Without a doubt, the economic crisis was a very rious blow" to the party's credibility, admits President Santiago Oñate Laborde.

DEATH THREATS. With the PRI flounderi Calderón plans to broaden the PAN's appeal deemphasizing its Catholic and conservati roots, focusing instead on democratic gove ment and social justice. Calderón's youth alc may be useful in attracting new members i country where the average age is just 19.

Considered one of the PAN's more libe figures, Calderón doesn't stray from the p ty's free-market stance. He wants to open the financial industry to foreign competition cut borrowing costs. He is in favor of t North American Free Trade Agreement b faults Zedillo and Salinas for not enforci its terms as toughly as the U.S. "We belie in sticking with a free-market economy, b with rules that guarantee social justice a tolerance," he says.

Although quite sanguine, Calderón knows the PRI remai a formidable adversary. He says that hotel and restaura owners in Cancún who support the PAN received dea threats. He also reports that Big Business is quietly c tributing money but is still reluctant to give public suppo Competing against the PRI's well-oiled, superfinanced electo machinery will still be difficult. But it is no longer impossib

By Geri Smith in Canc

GLOBAL WRAPUP

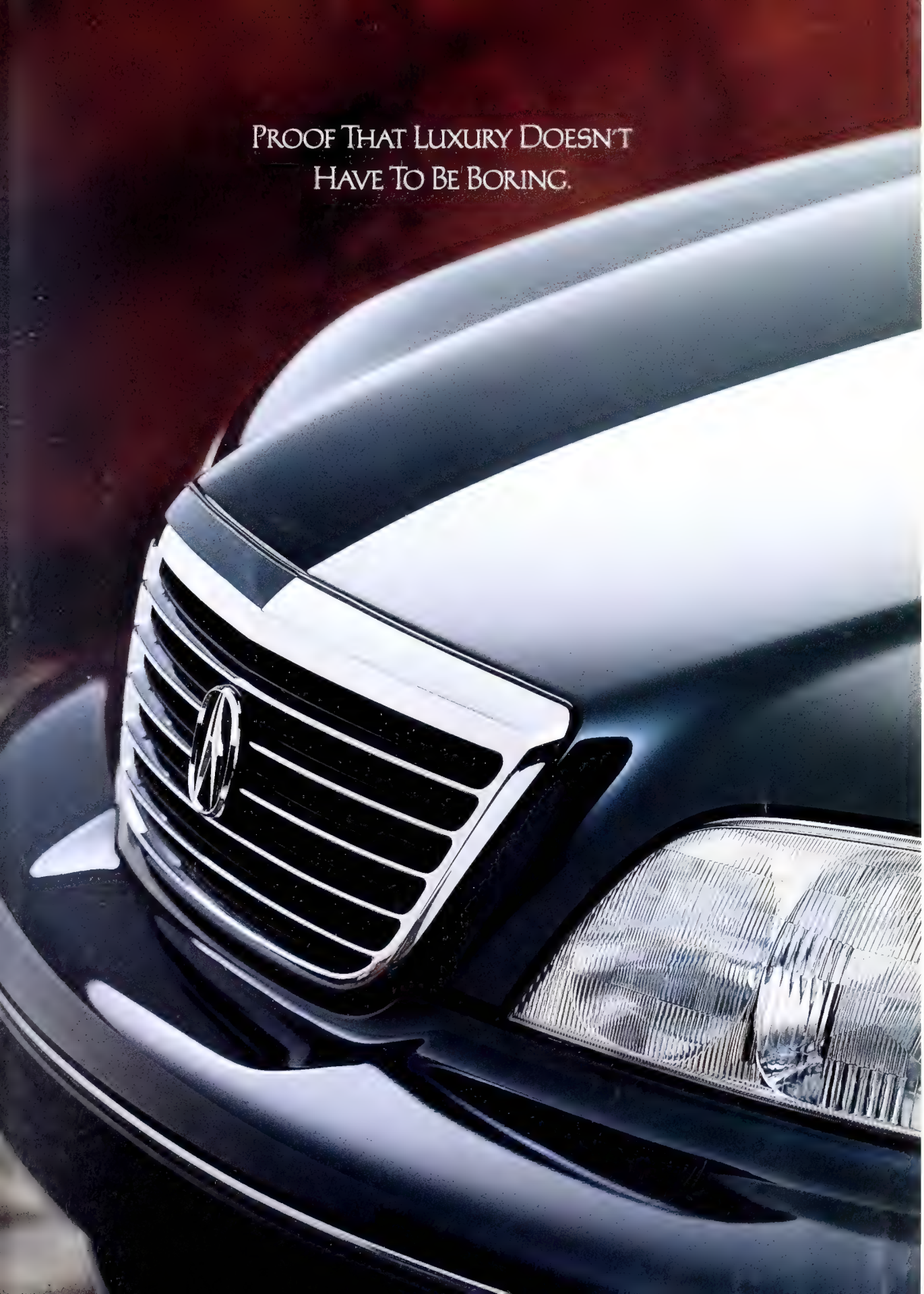
WILL GERMANY STIFF AIRBUS?

▶ Germany's soaring $41 billion budget deficit is finally forcing Bonn to make some tough decisions. The latest victim: Europe's Airbus Industrie consortium. Germany says it will freeze all subsidies to it until France agrees to open up Airbus' finances by turning it into a conventional corporation. It is now a so-called economic interest group whose finances are opaque.

The German move puts in question Airbus' ambitious plans to build a superjumbo of 500 to 600 seats that would compete with a stretched Boeing 747. To get the giant plane off the ground, Airbus will need $3 billion in subsidies—mainly from taxpayers in Germany and France. But Norbert Lammert, the German government's point man on aerospace, says endlessly bankrolling an organization that is not run like a business "doesn't make sense."

DIGGING IN AT FRANCE TELECOMP

▶ A bitter confrontation with unions is looming over a government plan to privatize France Telecom. The telephone monopoly's workers are threatening to strike on Mar. 29—when European leaders convene their inter governmental conference in Turin. The French government wants to sel off 49% of the company but can't get the workers' approval. The unions aren't impressed by promises that workers would keep their civil servic status and guaranteed jobs. They fea that such deals wouldn't be honored after privatization. Once again, politics is preventing France from making the hard choices needed to keep pace in an increasingly competitive environment.


PROOF THAT LUXURY DOESN'T
HAVE TO BE BORING.

THE ONLY PLACE YOU'LL SEE "BORING" IN THIS AUTOMOBILE IS IN THE REARVIEW MIRROR.

There is an assumption that a luxurious automobile must also be a boring one. To disprove this notion, we're introducing an exciting new flagship, the Acura 3.5RL.

Naturally, its extraordinarily quiet interior is appointed with an Acura/Bose 8-speaker CD system,* Automatic Climate Control System, burled wood* and astonishingly soft leather.

But never before has luxury found such an exhilarating outlet. Its 3.5-liter V-6 engine churns out 210 horsepower and the most torque in its class. That means, unlike many luxury cars, the RL delivers its power immediately upon request.

This power, however, does not come at the expense of a smooth ride. Thanks to a 4-wheel, double-wishbone, geometrically enhanced suspension, and the longest wheelbase in its class, the RL has the ability to tame corners and smooth the road.

There are hundreds of other details that make the RL extraordinary. Among them, hydraulic engine mounts and energy-absorbing seat springs to reduce vibration. And one more we'd like to mention: a holder for your sunglasses. It's above the rearview mirror. The one you'll glance into as you put a comfortable distance between you and a humdrum existence.

CAREFUL,
THE EDGES ARE SHARP.

When the engineers at Acura were told to design something "cutting edge," they took the words quite literally.

The result may very well be the most exciting luxury sports coupe to date. The new Acura 2.2CL.

Consider its sweeping profile, its aggressive stance, the subtle crease that bisects this car from the grille to its sculpted trunk – which, thanks to a unique security system, is not marred by so much as a keyhole. But naturally, the beauty of the Acura CL goes far deeper than its striking body.

A responsive, 2.2-liter VTEC engine belts out a tribute to its racing heritage. The 4-wheel double-wishbone suspension on impressive 16-inch alloy wheels and tires delivers a smooth ride while holding the road like a loved one.

In the roomy yet intimate cabin, you'll find the look of rich wood trim, an Automatic Climate Control System, a power moonroof and a six-speaker CD sound system.

Designed, engineered and built in America, the Acura CL manages to be something that is increasingly rare in the field of luxury sports coupes: an automobile that does not just cut through the wind, it cuts through the clutter.

FOR THOSE WHO,
GIVEN THE CHOICE BETWEEN LUXURY AND PERFORMANCE,
WOULD CHOOSE BOTH.

THE ENTIRE Acura line stands as proof that an automobile can successfully combine the comfort of luxury with the enjoyment of driving. Plus, each Acura is backed by our Total Luxury Care™ program—a comprehensive collection of roadside assistance and related privileges, such as concierge services.

This, combined with inherent reliability and quality, may help explain why Acura, for each of the last nine years, has been the best-selling luxury import in America.

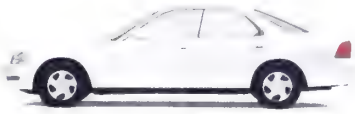
If you haven't driven an Acura, we suggest you do so soon. Which one? Now, there's a tough decision.

ACURA

THE NEW FAMILY OF ACURA AUTOMOBILES.

Acura 3.5RL

The Acura 3.5RL, our elegant, new top-of-the-line flagship, proves that luxury doesn't have to be boring. With its 3.5-liter, 210-horsepower engine, the RL is responsive and smooth, with all the features of a true world-class luxury sedan: Automatic Climate Control System, power moonroof, Traction Control System (TCS),* heated leather seats* with two-position memory, rich wood trim* and a powerful 8-speaker audio system with CD changer.* The 3.5RL priced about $40,000.‡ See your Acura dealer for final pricing.



Acura TL Series

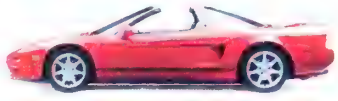
The TL Series is the embodiment of touring luxury. The 3.2TL sports luxury sedan comes with a 3.2-liter, 200-horsepower V-6. The 2.5TL sedan is powered by a 2.5-liter, 176-horsepower, inline five-cylinder engine. Both come with leather-appointed‡ interior, power moonroof* and the look of rich wood, in addition to ABS, Automatic Climate Control System, 8-speaker CD sound system and 8-way power driver's seat. The 2.5TL priced from $28,450.‡ The 3.2TL priced from $32,950.‡

Acura 2.2CL

A new member to the Acura family, the Acura 2.2CL luxury sports coupe is the first Acura to be designed, engineered and manufactured in America. It comes standard with a 2.2-liter, 145-horsepower, VTEC engine, Automatic Climate Control System, power windows and door locks, a keyless entry system with integrated theft-deterrent system, a 6-way power driver's seat, a power glass moonroof and a CD audio system. The 2.2CL priced about $22,500.‡ See your Acura dealer for final pricing.

Acura Integra

The Integra experience can be summed up in one word: fun. Perhaps that's why the entire Integra line made this year's *Car and Driver*'s "Ten Best" list.** Available as either a Sports Coupe or a Sports Sedan, each offers an astonishing array of trim levels. But all models feature power windows, AM/FM stereo/cassette audio system, dual air bags, low-profile projector headlights, independent 4-wheel double-wishbone suspension and 4-wheel disc brakes. The Integra RS Sports Coupe priced from $16,100.‡



Acura NSX-T

Heralded in automotive circles as the best sports car ever made, the NSX is our most exotic offering. It features a lightweight aluminum construction, a racing-inspired double-wishbone suspension and a 270-horsepower, 24-valve, 3.0 liter, VTEC engine. But performance is never at the expense of comfort. The NSX and NSX-T (with open top) both offer a leather-appointed cabin, Automatic Climate Control System, an Acura/Bose® sound system and power everything. The NSX priced from $79,500.‡ NSX-T priced from $83,500.‡

Acura SLX

The Acura SLX is a rugged 4-wheel-drive, sport luxury vehicle, with all the refinement of an Acura. It's the most civilized way to leave civilization. The SLX offers true sport-utility features, like engine power and high-riding visibility. But it also offers such luxury amenities as power windows and door locks, retractable power side mirrors, shift-on-the-fly four-wheel drive, dual air bags, ABS, an Acura Music System, heated leather seats,* wood-grained trim* and a huge safari-sized power moonroof.* The SLX priced from $33,900.‡

ACURA

FOR MORE INFORMATION, CALL 1-800-TO-ACURA

*Standard on mo[illegible] Premium Package. *MSRP excluding destination charges, tax, license, title and options. Pricing for RL and CL not finalized at time of printing. ‡Standard on 3.2TL base model and mo[illegible] Premium Package. Dealer price may vary. **Car and Driver, January 1996. ©1996 Acura Division of American Honda Motor Co., Inc. Acura, NSX, RL, SLX, TL, CL and Integra a[illegible] marks of Honda Motor Co., Ltd. VTEC is a trademark of Honda Motor Co., Ltd. Total Luxury Care™ is a trademark of Acura. Bose® is a registered trademark of Bose Corporation. C[illegible] by patent rights issued and/or pending. Dolby® is a registered trademark of Dolby Laboratories. Dynamic Noise Reduction® is a registered trademark of National Semiconductor [illegible]. Please Tread Lightly!™ on public and private land. Make an intelligent decision. Buckle up. Printed in U.S.A. 2/96.*

VESTORS

STEVE WYNN'S FULL HOUSE

ovies, fast food–you name it, he's bet on it

n the high-stakes Las Vegas world of $10,000 baccarat hands and $30 million credit, no one wagers more than Stephen A. Wynn. The son of a npulsive gambler, Wynn blew into n three decades ago with $45,000 in ily money. Today, after wagering $1 on that he could redefine Sin City by nding gambling and unprecedented z, the 54-year-old chairman of Mirage sorts Inc. is the high-profile head of at may be the most powerful compa- in the casino industry.

Less well known are the unlikely ces Mirage's boss is laying his bets se days—on entrepreneurs, takeover gets, and distressed companies. rking a network of bankers, show- iness figures, and corporate biggies, casino king has invested in interac- e companies, movie studios, and res- rants—and along the way, he has l both winners and losers (table). nn shrugs off the idea that playing market is his way of playing the ls. "It's hardly gambling, and there's real strategy here," he says. "If I'm ting, I'm betting on good people with d ideas."

OD TUNES. Personal connections figure many of his deals. Take Activision . Back in 1983, Wynn was sweet-talk- Dallas high-rollers at the Cattle ron's Ball when he was buttonholed Robert A. Kotick, a 20-year-old stu- t bent on launching omputer-game com- ny. Intrigued—Wynn s he initially viewed tick as "a potential -in-law"—Wynn flew tick to New York on corporate jet and und up sinking 5,000 into his start- That company oped, but Wynn has $1.55 million into a cessor and now owns arly 7% of Kotick's tivision, the maker of h hit games as *Re-turn to Zork* and *Radical Rex*. His stake is worth $13.5 million—and that's after he unloaded $8.2 million worth of stock last fall.

Wynn has been a far from passive investor, says Kotick. When Kotick's first company was making games for Warner Communications Inc.'s Atari Games unit, Wynn arranged for the young entrepreneur to have dinner with Warner Chairman Steve Ross, who was in Vegas for an electronics-industry trade show. More recently, he arranged for Kotick to pitch game ideas to Steven Spielberg and Arnold Schwarzenegger.

HIT ME: *Wynn likes to invest in the ventures of friends, Steven Spielberg and Jeffrey Katzenberg among them*

Wynn first met Larry Flax, the co-founder of California Pizza Kitchen Inc., at a Los Angeles fund-raiser in 1988 because Wynn had known Flax's date, crooner Wayne Newton's ex-wife, for years. After a second meeting, Wynn paid $250,000 for 1% of the gourmet pizza chain. When PepsiCo Inc. bought half of the company four years later, his stake was valued at $1.4 million, and it has since jumped to an estimated $2 million.

Wynn says he invested in DMX Inc.—a satellite-delivered music service that's 30%-owned by cable giant Tele-Communications Inc.—because it was started by the former manager of singer Kenny Rogers, a longtime friend. Wynn, whose 11.4% stake is worth some $11.3 million, sits on DMX's board. And Wynn paid $50,000 for 5% of Dive!, a gourmet submarine shop in Vegas backed by Spielberg and Jeffrey Katzenberg, because he knows the

WHAT WYNN HAS BEEN WAGERING ON

ACTIVISION Invests $1.55 million for 1.43 million shares in series of private placements, 1993-94. In September, 1995, sells 431,940 shares for $8.2 million. Including options, holds 1 million shares worth $13.5 million.

CALIFORNIA PIZZA KITCHEN Paid $250,000 for 1% stake in 1988. Current value estimated at $2 million.

DMX Acquires 5.3 million shares for $12.7 million in 1994 and 1995. Present value: $11.3 million.

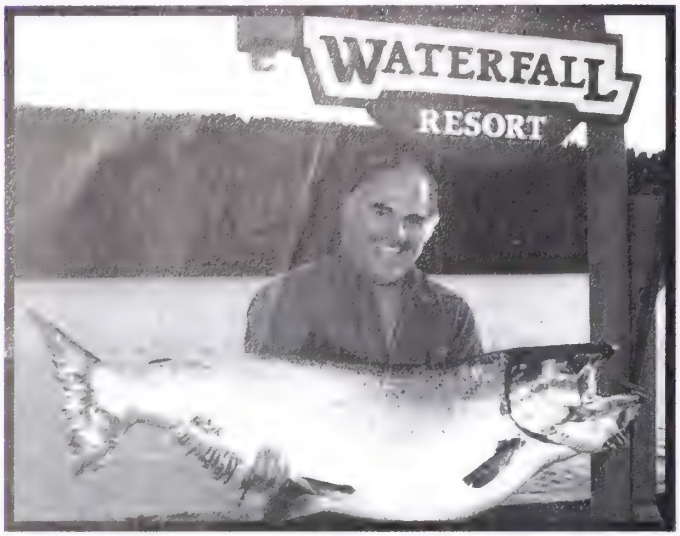
REPUBLIC PICTURES Purchases 321,000 shares in 1992-93 for average of $9.23 a share. Blockbuster's Spelling Entertainment buys company within a year for $13 a share. Wynn's profit: $1,210,170.

DATA: COMPANY REPORTS, BUSINESS WEEK

KING SALMON WHALES COHO EAGLES

Is fishing at Waterfall Resort, Alaska

Business or Pleasure?



The Decision is Good for Business and a Pleasure to Make.

Ford Dealers Assn. of Southern California For the last 13 years, Waterfall Resort has been our incentive / business destination of choice. Our benefits include not only improved sales results, but the Waterfall experience itself helps build a camaraderie unlike any other travel destination we have used. *– Paul F. Leader, Chairman*

Imperial Bank Waterfall is an exceptional resort simply because it all works so well. It is, by far, the best managed resort in Alaska. We look forward to our annual return this year as we have for the past decade.
– Norm Creighton, President and CEO

WATERFALL RESORT ALASKA
Member of Alaska's Inside Passage Resorts

Tear this page out and fax it to Waterfall (907-225-8530) and receive our special resort video, hosted by Steve Garvey

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movie moguls from the L. A. fund-rai ing circuit and because Katzenberg is fan of the Mirage's venerable magic ac Siegfried and Roy.

With $3.75 million in salary and b nus and a $677 million stake in Mi age, Wynn can afford to help friend and acquaintances get set up in bus ness. But it wasn't always that way. 1963, when he was a senior at the Ur versity of Pennsylvania, his father die and left him the family business, a leg bingo operation on Maryland's Easter Shore. In 1967, he bought 3% of th Frontier Hotel & Gambling Hall in La Vegas and became its slot manage There he was befriended by legendar banker E. Parry Thomas, who helpe him buy several pieces of land in 197 including a $1.1 million parcel owne by Howard Hughes, which he sold Caesar's World Inc. 10 months later fo $2.25 million.

Wynn, who made a coo $1.2 million after the Republic Pictures sale claims he didn't know a buyout was coming

Then 31, Wynn used the windfall start buying into the Golden Nugget, second-rate player off the Strip. In 197 a group including Wynn bought a con trolling interest, and he was named CE In 1979, he became the first junk-bon client of Drexel Burnham Lambert Inc Michael R. Milken, who helped him rais $160 million to build a casino in Atlant City that was sold to Bally Manufa turing Corp. in 1987. Milken later a ranged much of the financing for th $700 million flagship Mirage, known fo its fire-belching volcano.

Dealing with Milken gave Wynn a appetite for the 1980s takeover bing Using Golden Nugget funds, he made a aborted bid for 27% of Hilton Hote Corp. He purchased a 6% stake in Cae sar's—and walked away with $6 millio when the stock jumped. In 1984, he pu chased 4.9% of MCA Inc., getting ou with $11 million in profit when MC Chairman Lew R. Wasserman said h would fight any takeover bid.

Milken's MCA deals with Ivan F. Boes ky eventually became a key part of th federal case against Milken, but Wynn who had sold Golden Nugget's stak earlier, wasn't implicated. He suffere

of his biggest losses—he won't say much—investing on his own behalf h another Milken client, Saul P. nberg's Reliance Capital, which ven-ed first into insurance and then into nish-language TV stations. "We made t of money with the insurance com-y," he recalls. "But they got into TV f—bye-bye."

Vynn's zeal for the deal was undi-ished. In 1992 and 1993, he person-bought 9.5% of Republic Pictures p., and when Blockbuster Enter-ment Corp. took over Republic in 1993, he made $1.2 million. Wynn, bought nearly half his shares on gin, claims he didn't know a buyout coming—that he bought in because public was run by a son-in-law of as investor Jerome D. Mack. "This a kid we used to see at Passover," says, "and it sounded like he was ning a good company." But Steven ks, Republic's executive vice-presi-t at the time, says "everyone knew either needed investors or to get ght."

DY SYSTEM. Deciding when to hold when to fold is the test of a gam-, and the Republic deal is but one mple of Wynn's knack. He sold one-d of his Activision holdings on Sept. 1995—the day after the stock hit 52-week high and just before it tum-d 26% as a spate of bad news hit industry. Wynn says he decided to some of his shares when they hit 20. Vynn's investments frequently inter-t with Mirage business. Mirage pays $60,000 a year to provide music for four casinos. And Wynn's investment California Pizza Kitchen was condi-ed on the chain's letting Mirage fran-e any Vegas outlets. The chain's busi-restaurant—with $7 million a year in enues—operates inside the Mirage, r the famed white tiger exhibit.

On Mirage's behalf, Wynn keeps bet-g on gaming. Impressed by Circus cus Enterprises' new management, age quietly bought up nearly 5% of rival last spring and has gained a $33 million. Now the company is nding $500 million on a glitzy casino Atlantic City and $1.3 billion on the n glitzier Bellagio—complete with a acre lake—in Las Vegas.

For his personal portfolio, the casino g is thinking real estate these days. ng with the likes of Milken and Ru-t Murdoch, he's a partner in HNV Ac-sition LP, which last year paid nearly 0 million for Heron International, a ubled British firm that owns commer-l real estate throughout Europe. And n there's a trailer park somewhere in w England. "Just a buddy of mine o needed some money," says Wynn.

By Ronald Grover in Los Angeles

APPAREL

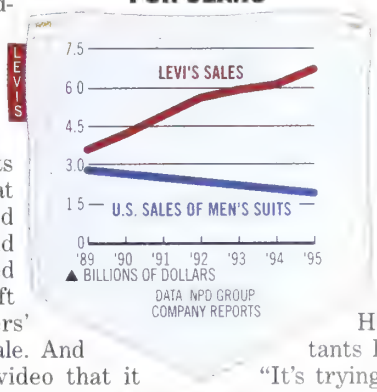
LEVI'S VS. THE DRESS CODE

Its stealth campaign is redefining business wear

Last summer, Charles Schwab & Co. decided to take its broker-next-door image a step further and do something nice for employees at the same time. Its dresses-and-suits-dress code was relaxed to include casual attire as well. But when workers started showing up in the office wearing everything from sweat suits to torn jeans, Schwab knew it needed help. So it called in another San Francisco company, Levi Strauss & Co., for a little fashion advice.

What it got was a lot more than advice. The world's largest branded-apparel maker sent over some snazzy brochures showing how dress could be casual without being sloppy. It provided lists of other companies that had successfully shed traditional attire and studies that showed how the apparel shift had improved workers' productivity and morale. And Levi's dispatched a video that it produced on the subject of casual business wear, which Schwab played in its cafeteria and at meetings. "People asked whether we were pushing Levi's merchandise," recalls Julius James, a human-resource director.

TRADING PINSTRIPES FOR JEANS



TIELESS. They weren't doing that, exactly, but a sales message was carried into the corporate corridors nonetheless. Schwab is just one of many stops in an elaborate and stealthy marketing campaign in which the jeans giant influences its customers through their employers. Over the past three years, Levi's has visited or advised more than 22,000 corporations in the U.S., including IBM, Nynex, and Aetna Life & Casualty. The apparel maker recognized early on that, once freed from the uniform of a coat and tie, many workers had no idea how to dress for the office. Who better to provide some helpful advice than Levi's?

The campaign, which has cost Levi's only $5 million so far, has ranged from putting on fashion shows featuring the company's clothing to manning a toll-free number for employers who have questions about casual business wear to holding seminars for human-resource directors. But Levi's keeps the sales message subtle and packages it with information and services that companies want: It is concerned that employers might resist outright product pitches on their premises. Levi's started the effort in late 1992, when it commissioned a study to document the trend to casual office duds. That done, it mailed a newsletter to 65,000 human-resource managers. Last year, it made the video that Schwab received, which so far has been sent to 7,000 other companies. Levi's effort "is very unusual," says Peter W. Harding of retail consultants Kurt Salmon Associates. "It's trying to create a dress code for dress-down wear."

The effort is still at full throttle. Levi's has built an extensive database of corporate workers and human-resource contacts. Last fall, it mailed postcards to 25,000 companies in the Philadelphia area inviting employees to a runway fashion show at a mall where it had just opened a Dockers shop. The event drew 400 people and helped make the store a top-performing new shop. In 1994, employees of Nationwide Insurance were treated to a fashion show at their Columbus (Ohio) headquarters. Levi's plans to add more on-site fashion shows this year. The New England Employee Benefits Council, a professional group, recently let Levi's make a presentation at one of its meetings in Boston to help members craft policies that give employees more freedom in dress while

maintaining acceptable office standards.

At many events, attendees leave their names and addresses—which are fed into Levi's database. "It's a very good marketing ploy," says Lea P. Davies, a human-resource director at Nynex. "It helps Levi's and gives us good practices for how to dress."

Levi's was lucky: The casual-dress trend clearly favors its business. But it was also smart. By catching the wave early and proselytizing aggressively, Levi's has helped create momentum. As a result, 75% of businesses now allow workers to dress casually at least once a week, up from 37% in 1992, according to Levi's research. The apparel maker figures that this translates into 5 million individuals with 20 million additional uses for casual clothing a week. That could mean an additional 11 million articles of clothing for Levi's to sell every year. So far, it appears to be getting a healthy share of the increase. At a time when most of the apparel industry is languishing, Levi's earned $734.7 million, up 32%, on record sales of $6.7 billion, up 10%, in 1995. "We did not create casual business wear," explains Daniel M. Chew, Levi's consumer marketing director for North America. "What we did was identify a trend and see a business opportunity."

GRUMPY SUITS. Now, Levi's is taking its war against traditional work wear global. In late March, it was preparing to launch an $8 million marketing campaign dubbed "The Mission." An irreverent 32-page advertisement will run in newspapers and be handed out on street corners in London, New York, Manila, Milan, and 10 other cities. It portrays briefcases as enemies and men in suits as grumpy. A tongue-in-cheek "Guide to Casual Science" states that dress-down clothes can have a positive effect on things ranging from divorce to dandruff. On the subject of fertility, for instance, Levi's advises: "Effective sperm can only be produced in the kind of calm and comfortable environment created by a pair of casual pants." Says James H. Capon, president of Levi's Dockers brand: "We don't want to offend. But that doesn't mean we can't at times be a little bit provocative."

To kick off the promotion, Levi's hired actors to stage mock demonstrations against conservative attire. On Mar. 22 about 100 men dressed in suits were scheduled to parade outside stock exchanges and elsewhere in financial districts around the world, cut their ties, strip down to their boxers, and put on khakis. "Levi's is capitalizing on its brand name and teaching men how they should look," says retail analyst Janet J. Kloppenburg at Robertson, Stephens & Co. "They certainly get market share from this."

The demand for more relaxed business attire and Levi's success at taking its fashion advice to workers through employers haven't been lost on the rest of the apparel industry. Eddie Bauer, which since 1994 has opened 15 new stores that cater specifically to the casual-business-wear trend, will soon offer its own guide to workplace dress, joining apparel manufacturers such as Haggar Corp. Target Stores, the nation's third-largest discounter, began selling a video on casual clothing tips last September. And Gap Inc., which is dressing up khakis with sport coats and ties in its Banana Republic outlets, says it will soon begin marketing its business wear ideas directly to companies. "Levi's was certainly out there earlier and stronger than a lot of people," says Gap Chief Financial Officer Warren I Hashagen Jr. "But any time people g a better understanding of casual wea we benefit."

CASUAL BUT NOT SLOPPY: *At a seminar in Boston, human-resource managers sport Levi's garb*

IN TATTERS. And then, of course, the are the folks who don't benefit. Make and sellers of tailored clothing hav recently endured some of their wor seasons ever—as consumers buy few suits and dresses. For many comp nies, including Today's Man, Edisc Brothers, and Plaid Clothing Grou the trend has translated into ban ruptcy. In 1995, 22 men's clothin stores went out of business Chicago alone, further dama ing the market with a flood cheap suits. Some blame Levi at least in part. "Levi Strau led the assault for very selfi purposes," says H. Gene Silve berg, president of Bigsy Kruthers Inc., a tailored-clot ing retailer. "But you have blame the balance of the indu try for not standing up to it."

And it looks as if Levi's w continue the assault. This sur mer, it is introducing Slates, i first new brand since its $1 b lion-dollar Dockers line w launched a decade ago. The ne line of men's dress pants Levi's attempt to dress up—ar expand—the definition of casu business wear. Levi's is als sprucing up women's Docker which has been a weak sister the men's business. Meanwhil the blitz of Corporate Ameri continues. Levi's recently se letters to employees, mostly h man-resource managers, 12,500 U. S. companies, invitin them to visit a Dockers shop f in-store fashion shows and sem nars. Takers receive a free Doc ers outfit, and Levi's gets st more names to add to its cu tomer database.

And Levi's campaign seems to b making headway even in the land the ubiquitous blue suit. In Japa where Dockers was recently introduce a newspaper ad offering executives i formation on casual business wear quic ly generated more than 1,000 request "Our goal is to take a leadership pos tion in casual business wear in th country and around the world," say Levi's Chew. No trend lasts forever, bu as long as workers prefer muted pla to starched white, Levi's may actual get its way.

By Linda Himelstein in San Fra cisco, with Nancy Walser in Boston

BusinessWeek

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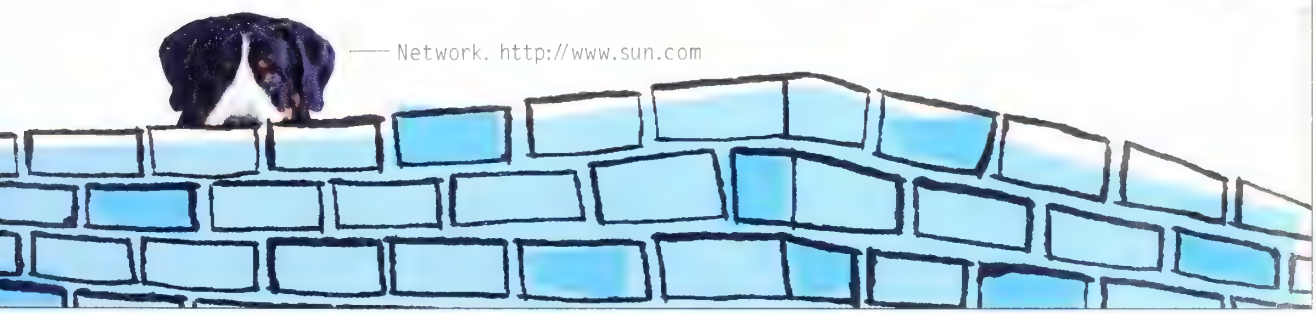


POLITICS

BOB DOLE'S OIL-PATCH PALS

Links to Koch Industries may prove embarrassing

When Senator Bob Dole is declared the Republican nominee for President at the GOP convention in San Diego this summer, two wealthy Kansas oilmen almost certainly will be in the wings joining in the applause. They are the brothers Charles G. and David Koch (pronounced "coke"), who together control about 80% of Wichita-based Koch Industries Inc. Koch's $25 billion-plus in annual revenues make it the nation's second-largest privately held corporation and the biggest independent oil company.

The relationship between fellow Kansan Dole and this secretive oil dynasty couldn't be tighter. David Koch, who was the Libertarian Party's candidate for Vice-President in 1980, is a vice-chairman of Dole's '96 campaign, and the Koch family ranks as his third-largest financial backer. From 1979 to 1994, the Kochs contributed $245,000 to Dole's campaign and political causes, according to a recent study by the Center for Public Integrity, a Washington political watchdog group. More recently, Federal Election Commission reports show that Koch employees donated $16,500 to Dole's Presidential campaign in 1995. And just last July, David Koch hosted a birthday party for Dole that raised $150,000 for the senator's White House bid.

STIFLED. Dole, for his part, has used the power and prestige of his office to help Koch when the company has gotten [illegible] trouble with federal authorities. Some [illegible]ton observers feel his ties with the company could become a liability, much as Bill Clinton's Arkansas business dealings have dogged him. As the Democrats step up their attacks on Dole and independent Ross Perot stirs up voter anger against the Washington buddy system, the Dole-Koch link could haunt the candidate in November.

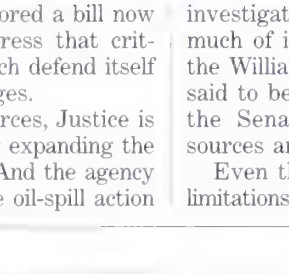
Koch has had a history of run-ins with the Justice Dept. and other federal agencies. In 1989, a special congressional committee looked into charges that Koch had routinely removed more oil from storage tanks on Indian tribal lands in Oklahoma and other states than it had paid for. Dole tried to influence the Senate committee to soft-pedal the probe. Nevertheless, after a yearlong investigation, the committee said in its final report, "Koch Oil, the largest purchaser of Indian oil in the country, is the most dramatic example of an oil company stealing by deliberate mismeasurement and fraudulent reporting." The report triggered a grand jury probe. The inquiry was dropped in March, 1992, which provoked outrage by congressional investigators.

WILLIAM KOCH

Bill Koch's lawsuits against brothers Charles and David focus on alleged thefts of oil from Indian lands–the subject of a probe Dole may have tried to soft-pedal

Then in April, 1995, the Justice Dept. filed a $55 million civil suit against Koch for causing more than 300 oil spills over a five-year period. Dole and other Senators, however, sponsored a bill now awaiting action in Congress that critics charge would help Koch defend itself against the oil-spill charges.

According to legal sources, Justice is now seriously considering expanding the suit into a criminal case. And the agency is taking steps to link the oil-spill action with a 1989 suit that also i[illegible] volved alleged oil thefts [illegible] Koch. That action was fil[illegible] in federal court in Tulsa [illegible] William I. Koch, a disaffect[illegible] brother of Charles and Davi[illegible] and is still pending. The fe[illegible]eral government is seekin[illegible] the records of the Senate investigation and is obtaining evidenc[illegible] much of it previously under seal, fro[illegible] the William Koch suit. That evidence [illegible] said to be similar to that presented [illegible] the Senate committee, according [illegible] sources and court records.



CHARLES KOCH

Even though the five-year statute [illegible] limitations has run out on the grand ju[illegible]

COZY: *From 1979 to 1994, Dole got $245,000 in donations from the Kochs*

be of the oil-theft charges, legal rces say the government's ultimate l is to use evidence in the two actions establish that Koch has engaged in a ad pattern of criminal behavior. The tice Dept. declined to comment.

Koch Chief Legal Officer Donald L. rdes denies that Koch Industries ever petrated an oil-theft scheme. And he tends that the "government's own a reflect that Koch's oil-spill record is erior to [that of] most oil companies." Responding to questions from BUSIss WEEK, Dole Press Secretary C. rkson Hine Jr. said: "Senator Dole ply joined three other senators, on ipartisan basis, in expressing appro-ate and legitimate concerns in an ef- to ensure fair treatment by a Senate nmittee of a Kansas employer.... ur characterization of the nature of office's role in this matter is absurd."

Koch's troubles with the government re triggered in 1987 by an *Arizona ublic* series on lax government mon-ring of possible thefts of oil and oth-minerals from Indian-owned lands. The articles piqued the interest of then-Senator Dennis DeConcini of Arizona, the Democrat who headed the Select Senate Committee on Indian Affairs. DeConcini convened hearings on Koch in May, 1989.

During the same period, William Koch was engaged in a nasty legal battle against Koch Industries and his brothers Charles and David. In pursuing a series of lawsuits, William claimed to have found evidence that Koch Industries oil-field personnel, under orders from management in Wichita, made a practice of taking more oil from producers' storage tanks, including those on federal and Indian lands, than they actually paid for.

Armed with these reports, the Indian Affairs panel formed a special investigations subgroup in January, 1988, to study the charges. Evidence suggested that gaugers, the oil-field hands who measure and take delivery of oil collected in tanks, had fudged temperature, specific gravity, and other volume-related measurements in favor of Koch Industries. For instance, in a sworn 1988 statement, Bill Kirton, a former Koch gauger and superintendent in Texas, declared: "If someone was watching, we were instructed to get one-half inch, but if no one were watching then to get two or three inches, or whatever you could get." In "one or two meetings," Chairman Charles Koch himself "urged us to be over" rather than short oil, Kirton testified.

Donald Cordes insists that inexperienced gaugers and other workers hired in Texas during the early 1980s oil-boom days were responsible for the vast majority of any discrepancies. "We had to hire a lot of people with no experience.... Maybe there was a failure in the incentive system." He says Kirton's statement was "absolutely false" and Kirton was "fired for cause." Kirton could not be reached for comment.

After examining records of some 30 oil companies and hearing testimony from 28 former Koch employees and su-

pervisors, investigators concluded that Koch was the only oil company routinely stealing oil. The committee's final report asserted that more than $30 million worth of oil had been illegally obtained from Indian lands. Koch's Cordes claims the Senate testimony was "loaded with fabrication, false statements, and perjured testimony."

PRESSURE? Two weeks after the special committee's hearings began, William Koch weighed in with his lawsuit against the company, filed in Tulsa under the 1986 False Claims or "whistleblower" Act, charging it with cheating oil and gas royalty owners and producers on federal and Indian lands. Roy M. Bell, William Koch's attorney, stated in court proceedings that the value of the allegedly stolen oil and gas plus fines and treble damages would total in excess of $600 million for royalty owners alone.

The most controversial—and murky—part of Dole's relationship with Koch is allegations that Dole attempted to influence the investigation on several occasions. According to sources familiar with the Senate probe, Dole's aides, in meetings on Capitol Hill, including at least one in his office, put pressure on the subcommittee staff to blunt the probe.

In two letters to DeConcini in late 1989, as the final report was being prepared, Kansas Senators Dole and Nancy L. Kassebaum and Oklahoma Senator Don Nickles, all Republicans, as well as former Oklahoma Senator David L. Boren, a Democrat, challenged the "reliability" of testimony given before the special committee. The following March, two weeks after the committee was disbanded, Dole complained on the Senate floor that the panel had rushed to judgment in the Koch investigation. Noting that he was speaking for Kassebaum, Boren, and Nickles as well, Dole said he had "very real concerns about some of the evidence on which the special committee was basing its findings." Describing the Senate investigation as "McCarthyism," Cordes says: "We were the objects of political skullduggery."

In August, 1989, in the wake of the Senate hearings and William Koch's lawsuit, senior Koch executives met to draft a plan designed to improve the company's image nationally—but particularly in Oklahoma, documents show. Top officials were assigned to cozy up to the state's most influential citizens, including oil-industry leaders and politicians.

Spearheaded by Ron Howell, Koch's director of state affairs for Oklahoma, this drive was the first in a string of events that may have culminated in the dropping of the government's investigation of the oil-theft charges. Howell, then a Republican district leader, greatly expanded the company's contributions to charitable causes and political campaigns, including that of Nickl a protégé of Bob Dole. Fr Apr. 19, 1991, through Nov. 1992, David Koch and the Ko Industries political action co mittee together contribut $7,000 to Nickles' campaign v chest. Around the same tir Nickles sponsored Timothy Leonard, an old friend of Ni les, for the post of U.S. Att ney in Oklahoma City, a j Leonard assumed in Octob 1989. When the Senate comm tee probing the oil-theft charg was referred to the U.S. Att ney's office in Oklahoma Ci which convened a rare sp cial grand jury, Leona took over the case.

Initially, questions we raised in the U.S. att ney's office about wheth Leonard should recuse hi self because Koch Industr purchased oil from wells which Leonard and his fa ily had royalty interes documents show. In a Mar. 1991, letter to Leonard, the Deputy Attorney Gene William P. Barr granted him waiver to participate in the ca stating that the amount Leona received—which is deleted in t copy of the letter that was ma public—were not large enou to create a conflict. But so question that decision. Says W ter F. Timpone, a Morristo (N.J.) attorney who until 19 headed the public corruption u at the U.S. Attorney's office Newark: "It's unusual for a U. attorney to ask for a waiver conflict rules, and most U.S. torneys recuse themselves avoid even the question of appearance of impropriety."

In March, 1992, after an 18-month vestigation, the U.S. Attorney's off terminated the grand jury probe a informed Koch it anticipated no indi ments. There is no evidence th Leonard's office was pressured into ma ing its decision. But people involved the Senate investigation are still ups Says DeConcini, who retired from t Senate in January, 1995: "I was su prised and disappointed. Our eviden was so strong. Our investigation w some of the finest work the Senate h ever done. There was an overwhelmi case against Koch." As the grand ju investigation was winding down, Nickl sponsored Leonard for a federal judg

THE KOCH-DOLE CONNECTION

MAY, 1989 Triggered by a series of stories in the *Arizona Republic,* the Senate Committee on Indian Affairs, chaired by Dennis DeConcini, begins hearings on alleged oil theft by Koch Industries. Allegations are later referred to the U.S. Attorney in Oklahoma City for criminal investigation.

MAY, 1989 William Koch files suit in Tulsa against Koch Industries, also alleging theft of oil by Koch.

MARCH, 1990 In a speech to the Senate, Dole defends Koch Industries.

MARCH, 1992 The criminal investigation by then-U.S. Attorney Tim Leonard is terminated.

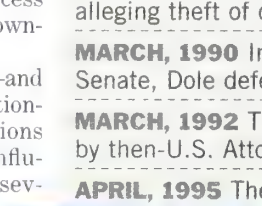
APRIL, 1995 The Justice Dept. sues Koch for $55 million in damages, alleging illegal discharge of 2.3 million gallons of oil in 315 incidents over five years.

APRIL, 1995 Provision added to Dole's regulatory reform bill that environmentalists say could help Koch Industries defend against the Justice lawsuit.

1996 The Justice Dept. is said to consider expanding the environmental civil suit into a criminal case.

DATA: BUSINESS WEEK

SENATOR DeCONCINI



CLEANING UP A TEXAS OIL SPILL

"SAS software is a driving force in understanding business data."

When you're the largest independent retailer of gasoline in the U.S., with over 2500 stores and annual sales topping $3.5 billion, one small change in fuel prices can have a big impact on the bottom line. That's why Circle K Corporation's Petroleum Products and Services Division turns to the SAS System.

"Its analytical capabilities, ease of use, and ability to handle large amounts of data put it above and beyond other software," says Mary Niles, Petroleum Systems Analyst for the division.

Fitting Circle K's Information Needs to the Letter

Circle K's business analysts say SAS software has meant tremendous time savings in day-to-day business tasks. According to Dianne Hurley, Director of Petroleum Pricing and Ordering for the division, "SAS software lets us forge forward with our data, enabling us to create pricing models, volume predictors, and budgets in record time. This, in turn, lets us make decisions much more quickly."

Data regarding gasoline pricing is gathered into GMARD—short for Gasoline Marketing Analysis Relational Database—a system built with SAS software. From there, the data is transformed into meaningful business information for executives throughout the Petroleum Products and Services Division. Niles says,

Dianne Hurley and Mary Niles of the Circle K Corporation.

"The software lets us easily add other applications and functionality." Now in development is a SAS-based EIS for non-technical executives. "It's a big goal of ours to provide executive information systems that allow people at the top to quickly and easily view data and make good business decisions. To them, a picture is worth a thousand words," adds Hurley.

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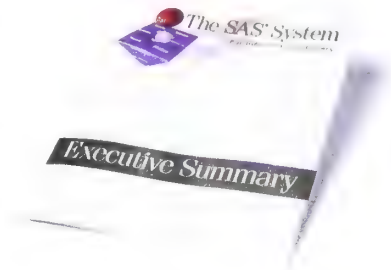

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ship. He was nominated by President Bush in November, 1991, and confirmed by the Senate the following August.

In a rare interview for a sitting federal judge, Leonard said there was "never direct or indirect pressure brought to bear on me on any investigation when I was in office...." He added that "there was not enough evidence...to return indictments or continue the investigation." Nickles says he was "not even aware that the U.S. Attorney's office was involved in a criminal investigation of Koch. I never had a conversation with Leonard about it." In a Mar. 13 letter to BUSINESS WEEK that said the magazine was considering publishing "false and discredited charges about Koch Industries," Cordes said: "There was not one scintilla of evidence that any pressures were brought to bear on the U.S. Attorney's office or the grand jury."

"SILENT OBSERVER." Throughout the Senate inquiry and criminal investigation, William Koch's litigation remained active. He strengthened his case by winning over the Osage tribe in Oklahoma, on whose land some of the oil thefts allegedly took place. In 1990, the Osage issued a statement exonerating Koch Industries partly based on statements from the Bureau of Indian Affairs, which found no thefts. But the tribe repudiated its original position after receiving evidence that it had been duped—specifically, sworn statements from former Koch employees that described in vivid detail allegedly fraudulent practices with full knowledge of and encouragement by Koch officials. Charles O. Tillman Jr., principal chief of the Osage tribe, wrote in a Nov. 29, 1994, letter to Senator John McCain (R-Ariz.), a member of the investigative committee: "We are left with the inescapable conclusion that the Bureau of Indian Affairs was more concerned with putting a lid on your committee's findings than in providing us with the truth." Adds Stanlee Ann Mattingly, an Osage activist: "We just want to finally get to the bottom of the truth." Retorts Cordes: "T Osage tribe is as political as it can be

While William Koch's litigation wou its way through the courts during t early 1990s, the U.S. government b came a "silent observer" in the case, a cording to Tulsa court records. By la 1995, the feds were "certainly taking more active interest in the case," Justi Dept. attorney Gregory H. Gust stated court hearings. Last Jan. 18, he pe tioned the Tulsa court to allow the go ernment to obtain discovery mater from the litigation. Over the strong c jections of Koch Industries, a feder magistrate ordered the m terial released to the gover ment as well as the parti in the suit.

One reason for Washin ton's interest appears to the environmental lawsu against Koch Industries fil by the Justice in April, 1995, at the b hest of the Environmental Protecti Agency and the U.S. Coast Guard. It leges that since 1990, Koch discharg 2.3 million gallons of oil from its pipelin into the waters of six states in 315 se arate incidents. A law-enforceme source says the suit touches on only

A pending Dole bill may limit Koch Industries' liability in a lawsuit over 315 oil spills in six states

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tion of the spills and ping by Koch. While no le spill is huge, incidents ıde 29 in Kansas and a dful in Russell, Kan., e's hometown.

Nevertheless, in early 5, Dole took steps that help Koch defend itself. le Dole was preparing to ounce his candidacy in y 1995, he proposed the nprehensive Regulatory orm Act of 1995. The leg-ion, which Dole said was gned to rein in the fed- bureaucracy, was draft-at Dole's request by C. den Gray, chief counsel he Bush White House now chairman of Citi- s for a Sound Economy, a conserva- think tank. Koch Industries was an y backer of the CSE and has given e than $7.9 million to it. David Koch ved as CSE chairman in 1992 and is rently chairman of CSE's research ıdation. Dole's Better America Foun-on gave $50,000 to CSE last May. In -1995, after critics charged that the ıdation was merely a campaign fund er than a think tank, Dole disbanded nd returned $4.6 million to donors, in-ing about $98,300 to Koch.

OSAGE ACTIVIST MATTINGLY: *"We just want the truth"*

Months before the legislation was introduced in early February, 1995, say sources, Koch learned that it could become a target of an environmental lawsuit. Koch and the Justice Dept. met in Dallas in mid-February to discuss the impending suit. In early April, 1995, the draft bill was amended with a provision that critics charge would allow companies facing such suits to defend themselves by citing conflicting federal regulations to prove that regulations had not been enforced uniformly. "Koch could be a potential beneficiary if the bill is enacted into law," says David Hawkins, a senior attorney at the Natural Resources Defense Council.

Cordes insists that other companies, not Koch, lobbied for the measure and that it wouldn't help Koch in its environmental suit. Dole spokesman Hine says the provision was added to the bill by another senator—Kay Bailey Hutchison (R-Tex.), other Senate staffers say. "Dole had nothing to do with it," Hine says. While Dole may not have introduced the language himself, his staff took an active role in overseeing the bill's overhaul. "Dole's staff vetted the bill. It's hard to believe that anything was put in the bill without Dole's knowledge," says Richard Gold, a Washington environmental lawyer involved in the legislation. The bill is still high on Dole's agenda.

Whatever the case, it's a good bet that as Dole pushes toward the White House, Democrats will be looking very carefully at his multifaceted ties with his wealthy home-state benefactor.

By Phillip L. Zweig in Wichita and Michael Schroeder in Washington

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STRATEGIES

SO SHALL MONSANTO REAP?

Its biotech bet must pay off big to pay off at all

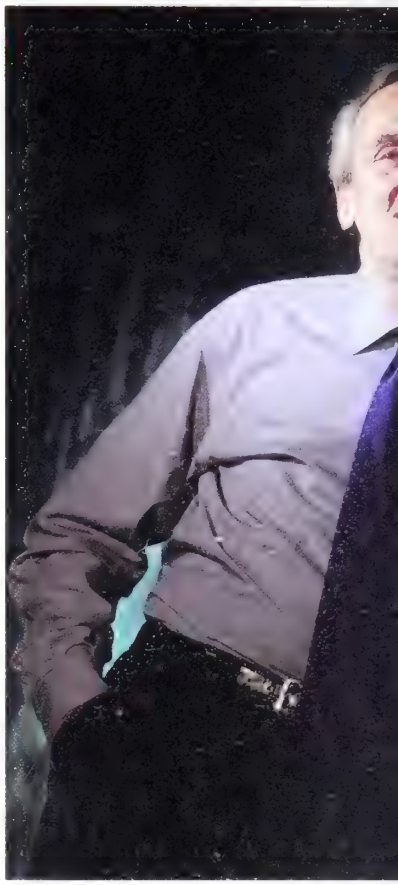
For more than 15 years now, executives at Monsanto Co. have trumpeted the huge gains they expect to make—someday—in the potentially vast market for genetically engineered agricultural products. Defying skeptics from Wichita to Wall Street, the St. Louis-based chemical giant has outspent rivals such as DuPont, Ciba-Geigy, and Pioneer Hi-Bred International to develop biotech-altered seeds and pesticides aimed at reducing farmers' costs and enhancing crops.

Now, with its biotech research tab topping $1.5 billion, Monsanto is about to find out if its bet will pay off. Under new CEO Robert B. Shapiro, who succeeded longtime chief Richard J. Mahoney early last year, Monsanto is gearing up to snare the lion's share of what could be a $4 billion annual market for biotech-enhanced agricultural products. This spring, Monsanto rolls out its first products—from potatoes and cotton that grow without pesticides to altered tomatoes that ripen slowly. "There's no doubt that genetically modified crops are going to play an important part in this company's future," says Shapiro.

Wall Street is cheering their arrival. Buoyed by last year's strong performance—income rose 20%, to $739 million, on sales up 19%, to $9 billion—Monsanto's stock has doubled, to 158, in 12 months. The rise also stems from expectations that biotech products will finally add to the bottom line. "Monsanto's earnings driver in the coming years will be its agricultural biotech products," says Ian Rogers of Strong Capital Management, which owns 500,000 shares.

While that moment is at hand, some are quietly wondering whether Monsanto will ever grab enough market share to justify its huge expenditures. The company's costly and controversial first foray into genetically engineered products—BST, the hormone that increases cows' milk production—has disappointed. And as the long-awaited products leave the labs, rivals who wagered less on biotech are entering the market on the cheap by teaming with small biotech research houses. Although few doubt Monsanto will be a key player if the market takes off, analyst Sano M. Shimoda of BioScience Securities Inc. in Orinda, Calif., warns: "There is a real question of how big the potential is for biotech at Monsanto and whether it will fall short of their expectations."

SWEET MOVE. Certainly those hopes run high: Monsanto's biotech push is deeply rooted in its need for new products. In his 12 years at the top, Mahoney diversified Monsanto away from commodities. He bought drugmaker G.D. Searle, with its lucrative NutraSweet artificial sweetener, in 1985 and moved Monsanto into other less cyclical areas such as food ingredients and biotech. But Searle's pharmaceutical side has struggled: Although it brings in 19% of sales, it adds just 11% in earnings. And in 1992, the patent



on aspartame, NutraSweet's main i gredient, expired. In 2000, Monsant U.S. patent on its top-selling product, herbicide called Roundup, also end Roundup accounts for $1.5 billion, 17%, of Monsanto's revenues and an e timated 40% of operating profits of $9 million, says analyst James Wilbur Smith Barney Inc. Rival products a almost certain to force big price cuts.

That explains why Mahoney long a placed a far heavier bet on biotech th many competitors. Now, it falls Shapiro, who was running NutraSwe when Monsanto bought Searle, to ma the move pay. By pouring funds into broad array of products, analysts sa Monsanto aimed for a dominant ma ket position when biotech finally start hitting the farms. It has concentrat on efforts to improve farmers' yield

It's in the Genes

This year, Monsanto will start rolling out its ambitious lineup of genetically engineered agricultural products, such as seeds for cotton, soybeans, and potatoes

NEW CEO SHAPIRO: *Wall Street is cheering his strategy*

developing products that increase the resistance of cotton, potato, and wheat crops to disease and bugs. It also developed genetically altered seeds that produce crops resistant to its Roundup weedkiller. Such "Roundup-ready" products should prolong the life of the profitable herbicide. "While other companies were merely putting their toes in the water, Monsanto dove straight in," says analyst Christopher H. Willis of Schroder Wertheim & Co.

But did Monsanto jump into the right end of the pool? Rival DuPont Co., by contrast, followed a less technologically demanding strategy of developing genetically engineered seeds that simply improve the nutritional value or traits of corn or soybeans, at a cost of just $15 million to million each year. "We believe that g term, adding value to harvested ps will be more lucrative than lower- farmers' production costs," says ert T. Giaquinta, DuPont's head of echnology business development.

M RESISTANCE. That may be the ful lesson Monsanto has learned with irst stab at a genetically engineered duct. The company launched bovine atotropin (BST), designed to boost k production, with great fanfare in y 1994. But the drug—once touted by oney as a $1 billion-a-year business— n't caught on. Monsanto has had dif- lty persuading farmers to use the duct, which requires complicated ning. Continued consumer resistance also hurt. Analysts estimate that BST osing about $10 million annually. "I ld be surprised if they're not out of business by yearend," says Wilbur. ough Monsanto chief economist A. holas Filippello declines comment on s future, he concedes results "have n less than we had hoped."

ndustry sources expect the market altered plants and seeds to hit less stance. And Monsanto is moving ag- ssively to bolster its own biotech ngths with acquisitions. Last June, it ounced plans to spend $30 million to uire 49.9% of Calgene. The money- ng company, based in Davis, Calif., struggled with efforts to introduce Flavr Savr, a genetically engineered tomato. Monsanto will share its own similar technology; just as important, Calgene has a strong position in oilseeds. In January, Monsanto also inked a development deal with Ecogen Inc., based in Langhorne, Pa., which is known for its research into *Bacillus thuringiensis*, or so-called Bt, a naturally occurring microorganism that attacks bugs that eat cotton and other crops. And in February, Monsanto paid $180 million for 40% of Dekalb Genetics Corp., a $450 million seed and research company in De Kalb, Ill. Together, the deals should let Monsanto quickly introduce seeds with its insect- and pesticide-resistant technology.

But rivals are also forging ties with smaller biotech companies to develop their own genetically engineered products. A cross-licensing agreement between Ciba Seeds, a unit of Ciba-Geigy and Mycogen Corp., a San Diego-based maker of biological pesticides, will soon allow Ciba to roll out insect-resistant corn ahead of rivals. Over the past year, both seedmaker Pioneer Hi-Bred and DowElanco, a joint venture of Eli Lilly and Dow Chemical, have also set deals with Mycogen. And Agrevo, a joint venture of Hoechst and Schering-Plough, will soon roll out herbicide-tolerant rivals to Monsanto's Roundup-ready products.

Will the market have room for all? Monsanto's strengths will likely give it a large slice of the initial pie, and Shapiro says it will continue adding innovative products that build on the gains to farmers. But the crowd of entrants will make it far harder to achieve dominance, which could make the expected payoff much slower to arrive. One prominent Wall Street analyst recently asked Monsanto Chief Financial Officer Robert Hoffman when the company expected to recoup its investment in biotech. Hoffman's response: "I'm reluctant to calculate breakeven, for fear of what the answer would be." Even Shapiro concedes that it's too early to tell whether Monsanto will "capture the value" from its investments. "My best guess is that if we are successful in coming up with a stream of products, then we will be able to," he says. Monsanto's long-awaited biotech payoff appears to have arrived. The question now: Will it be big enough?

By Ron Stodghill II in St. Louis

STRATEGIES

THE STAR BEHIND MEXICO'S PULSAR

In the midst of a bitter recession, Alfonso Romo is going global

In a remote laboratory deep in the heart of impoverished, revolt-torn Chiapas, Mexico, plant pathologist Velitchka Blagoeva Nikolaeva picks up a papaya and points to a thumb-size, ring-shaped blemish. "This ring-spot virus can destroy whole plantations of papaya," she says, speaking Spanish with a thick Slavic accent. "We're trying to wipe it out."

Nikolaeva, a Bulgarian, came to Chiapas thanks to Alfonso Romo Garza, a Mexican cigarette and insurance tycoon with a passion for high-tech farming. Her job is to genetically engineer papayas for resistance to the virus. Cutting-edge biotechnology and multimillion-dollar research and development aren't qualities often associated with Mexican companies. But they are rapidly becoming the hallmarks of Romo, who is founder, CEO, and majority owner of Pulsar Internacional, a holding company with a major presence in Mexico's tobacco, produce, packaging, and insurance businesses. With about $1.8 billion in annual sales, Pulsar is among the 15 largest Mexican companies. Its cigarette and seed unit, Empresas La Moderna, trades on the New York Stock Exchange as an American depositary receipt.

At a time when many Mexican companies are still stuck in the country's bitter recession, Romo is on the move. Cashing in on his strong franchise in Mexico's cigarette industry, Romo issued stock and debt to make global bets on businesses he thinks will pay off big.

"TREMENDOUS FUTURE." In the past 15 months, he has spent more than $480 million for control of three seed and biotech companies, U.S.-based Asgrow Seed Co. and Petoseed and Dutch seed company Royal Sluis, giving him a 22% share of the world vegetable seed market. He will soon merge with DNA Plant Technology Corp., a publicly held California company specializing in genetically engineered food enhancement. Says Romo: "I see a tremendous future in this area."

Romo is also making a splash in financial circles. He recently persuaded

former Finance Secretary Pedro Aspe Armella, a director of The McGraw-Hill Companies, the publisher of BUSINESS WEEK, to set up a new investment bank for Pulsar. And Romo, who owns Mexico's biggest insurance company, is bidding for Asemex, a large insurer that will be privatized in early April. That would give him a 30% share of Mexico's fast-growing insurance market.

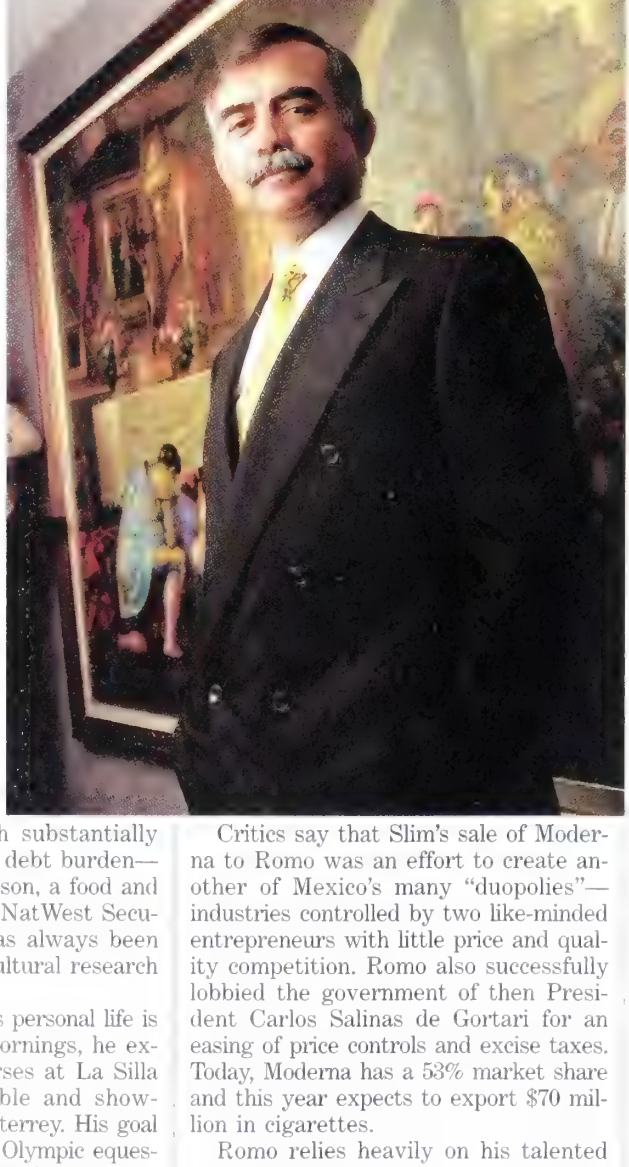
Romo is one of a few entrepreneurs who are changing the way Mexican companies do business. They believe that they must diversify internationally, if only to weather the economic storms at home. They emphasize technology and, especially, human capital. In Chiapas, for instance, peasants working for Romo spend an hour a day learning the three Rs. "I don't believe cheap labor is the basis of Mexico's future," Romo says.

Thanks to Romo's recent acquisitions, 43% of Pulsar's agribusiness and tobacco revenues now come from overseas operations or exports, compared with just 5% three years ago. Romo is also trying to make Mexico's underdeveloped agricultural industry an efficient supplier of premium produce to the U.S. and other international markets. So far, so good: While more than 1 million Mexicans have lost their jobs in this crisis, Romo's 25,000 employees have kept theirs.

It is not yet clear how Romo's diversification into biotech—which substantially increased the company's debt burden—will work out. David Nelson, a food and agribusiness analyst for NatWest Securities Corp., says: "It has always been difficult to convert agricultural research into financial returns."

WELL-CONNECTED. Romo's personal life is frenetic. At 6:30 most mornings, he exercises one of his 60 horses at La Silla ("The Saddle"), his stable and showplace just outside Monterrey. His goal is to make Mexico's 1996 Olympic equestrian jumping team. Switching gears, Romo hops into his helicopter for the short flight to Pulsar's headquarters.

Although Romo's business instincts are indisputable, his connections haven't hurt. Romo is married to the daughter of Alejandro Garza Laguera, a key member of the wealthy Garza Sada clan that has long dominated Monterrey. And in 1985, an old schoolmate, Fernando Chico Pardo, finance chief of Grupo Carso, asked Romo if he would be interested in Mexico's biggest cigarette producer, Cigarrera La Moderna. Carso Chairman Carlos Slim Helú, who owned Cigatam, Moderna's chief competitor in cigarettes, had been buying up the shares, but he wanted to avoid antitrust problems. With his father-in-law and others, Romo paid $40 million for a controlling stake.



Critics say that Slim's sale of Moderna to Romo was an effort to create another of Mexico's many "duopolies"—industries controlled by two like-minded entrepreneurs with little price and quality competition. Romo also successfully lobbied the government of then President Carlos Salinas de Gortari for an easing of price controls and excise taxes. Today, Moderna has a 53% market share and this year expects to export $70 million in cigarettes.

Romo relies heavily on his talented corps of managers, most of whom have worked together since the 1970s. Many of them attended the same primary school as Romo in Mexico City. "Romo has one of the best management teams I've seen in Mexico," says Lorenzo Zambrano, CEO of Cemex, another co pany that has expanded abroad. Th management depth has helped Ro enter a range of businesses. In 19 he bought a nearly bankrupt insura company, La Comercial, and turned around. In 1993, Pulsar bought anoth and merged the two to create Com cial America, with $700 million in nual premiums.

DISASTROUS YEAR. The only busin where Romo has stubbed his toe is t brokerage house Vector Casa de Bol which lost around $21.8 million in 199 one of the highest losses in a disastro year for Mexico's brokerage firn Romo, the majority owner, and oth Vector shareholders had to reach in their own pockets, to the tune of $ million, to help cover losing positions

But Romo has retained the confider of the international financial communi In November, 1995, Pulsar subsidia Empresas La Moderna won a $130 m lion syndicated loan—the first such lo to a Mexican company since the 19 debt crisis.

Romo thinks Mexico will pull out its crisis. "We're having to carry out major housecleaning, but that does mean the country is going to disappea he says. And Romo looks likely to jo in the recovery—whenever it happen

By Geri Smith in Monterrey, Mexi

The Romo Résumé

BORN 1950 in Mexico City.

EDUCATION B.S., Monterrey Technological Institute, agricultural engineering.

FAMILY Descendant of former Mexican President Francisco Madero. Married to a member of Monterrey's powerful Garza Sada clan. Four children.

HOBBIES Raises thoroughbred horses; trying out for Mexican Olympic equestrian team; runs sanctuary and breeding program for endangered birds.

HOLDINGS Founder, CEO of Pulsar Internacional, a Monterrey-based tobacco, agribusiness, biotechnology, and insurance group. Estimated 1995 revenues: $1.83 billion.

LATEST MOVE Made four acquisitions worth $590 million to become a global player in seed and plant biotech.

DATA: BUSINESS WEEK

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Cover Story

FALL OF THE WIZARD

Julian Robertson was the best stock-picker on the Street. Has he lost his magic?

Julian H. Robertson Jr. is warming to his subject. He is bald and burly, over six feet tall, 63 years old, with a deep, booming North Carolina drawl. The subject is stocks, and Robertson is alive, animated. Uni Storebrands. Ever heard of it? Robertson has. And how. It is his largest holding—an obscure Norwegian insurance company. He'd like to buy more, but local regulations forbid it. Swiss Reinsurance Co. is another favorite. So is Harrah's Entertainment Inc. Citicorp? Absolutely. Japanese banks are another matter. "The worst in the world," he says flatly.

Stocks are what turned Julian Robertson from an obscure broker-turned-money manager into a power in the world markets. Robertson is the founder and chairman of Tiger Management Corp., Wall Street's global-investing powerhouse. George Soros may be the savant of the currency markets, but when it comes to stocks, Julian Robertson is the master—poised, ivory-towerish, in a top-floor, glass-walled office on Park Avenue. And even as a global currency-trading "macro" player, he could give Soros a run for his money. Year after year of brilliant returns lured the high-octane investors—at $5 million or more a head—who turned $8 million in 1980 into $7.2 billion in 1996. Robertson was ahead of the curve on every major trend in investing, from the surge in European equities that followed the fall of the Berlin Wall

Robertson put together the brightest, best-paid team on t

to the tumult in the global bond markets in 1992 and 1993.

Robertson was the reigning titan of the world of hedge funds—the secretive, often highly leveraged private investment partnerships that are the piggy banks of trust funds, endowments, and millionaires. Robertson assembled a team of the smartest and best-paid stock-pickers on Wall Street—a "Super Bowl team," as his friend and adviser, Dr. Aaron Stern, puts it.

At his peak, no one could best him for sheer stock-picking acumen. Robertson was the Wizard of Wall Street. And he was paid well for it. In 1993, his compensation and share of Tiger's mammoth gain probably exceeded $1 billion.

But something toppled him from that pinnacle. It all began with a disastrous first quarter of 1994. In contrast to a stunning 1993, when Tiger's funds gained 80% before fees, his funds declined 9%. Investors, who had poured money into Tiger in 1993, began to pull out. In 1995, as still more investors defected, he eked out a pre-fee gain of 17%, a humiliating 20 points below the Standard & Poor's 500-stock index. And even though Robertson began to do well again in 1996, climbing 17% in January, his gains soon were cut almost in half—and his revival has all the makings of a bump on a downward slope. On one horrible day, Mar. 8, Tiger sustained a $200 million loss, as a bet on U. S. Treasuries turned sour.

Nothing seems to have helped, not more analysts, not the addition of Morgan Stanley & Co. managerial whiz Lewis W. Bernard. Not even Stern, a prominent psychiatrist and management consultant, has restored the magic that is fast becoming a memory.

ROBERTSON IN PARIS

Has the investment world's biggest success become a victim of his own overcontrolling management style—and nasty temper?

How did the best record in the world of investing turn so dreary? Getting the answer to any significant question at Tiger has long been nearly impossible, for that glass-walled perch on Park Avenue might just as well be one-way glass. Robertson rarely grants interviews, and former employees are afraid to speak about him, even off the record.

But the veil of secrecy has been lifted. BUSINESS WEEK obtained access to the inner circles of the Tiger organization—including its mercurial chief. Interviews with Robertson, along with current and former employees, revealed a fascinating, if unsettling, story of a complex man and organization. It is a story of bad choices, grave missteps in high-stakes currency and bond plays, and atrocious management—including the waste of the some of most brilliant analytical brainpower on Wall Street. Above all, it is the story of a man who rose to greatness—only to be foiled by his own overcontrolling management style and hot temper.

When Robertson began his climb to the top, he did so on the strength of his stock-picking prowess. He still employs some of the best analysts around. Whether they are used well is another matter. One clue can be found in the tale of a promising young analyst.

THE ANALYST

"We try to assimilate in these people [young analysts] the qualities that made Julian Julian."

—Dr. Aaron Stern, a Tiger director

Katrin Yaghoubi could hardly believe her good fortune. It

et. At his peak, none could rival his stock-picking ability

was the middle of 1994, and Tiger was suffering—down 12% in the first quarter because of ill-fated currency bets. In her little corner of Tiger, though, it was raining money. Barely a month and a half into her career at Tiger, her first job on Wall Street, Julian Robertson, on her say-so, had bought 15% of a company! It was almost an anticlimax when, six months later, the stock, Canstar, went on to double.

Katrin Yaghoubi was an anomaly at Tiger—a woman born in Germany of Iranian parents working in a largely male, largely WASP outfit where Southern accents are dominant. Yaghoubi was introduced to investing just a few months before she was hired in mid-1994, as she was completing course work toward an MBA at Columbia University. She was in a class taught by James Rogers, the investor and commentator, when she caught the eye of Patrick Duff, a former Tiger analyst who was often invited to help with the class. That led to an introduction to Robertson, who hired her out of Columbia.

Yaghoubi discovered Canstar while still at Columbia. She came up with the idea not by a hot tip or by reading about it in a brokerage-house report—but by dogged research. She started by putting together a list of every public sporting-goods company. She talked to trade-magazine editors, store owners—anyone who knew anything about sporting goods. "I kept asking, 'What's the next big trend?' They told me it would be roller hockey." Yaghoubi then immersed herself in the roller-hockey world, even "interviewing kids in Central Park." She soon found Canstar, which makes skates. The company boasted a healthy balance sheet and lots of insider buying.

This was an example of Tiger at its stock-picking best: a smart idea, grounded on exhaustive research, followed by a big bet. When Robertson is convinced that he is right, a former Tiger executive notes, "Julian bets the farm."

Cover Story

Canstar was only the beginning. At Tiger, Yaghoubi had a string of winners, all found through the same rigorous legwork. She even used the Internet and online services. A chat lounge on CompuServe gave her negative information on another company—Franklin Quest. Further research showed that margins were under pressure, competition was mounting, and insiders were selling. On Yaghoubi's recommendation, Robertson "pulled the trigger," ordering a short sale.

Yaghoubi's other short picks were similarly doped out the Robertson manner. Bell Sports, Fossil, Arctco—all w shorted by him on her recommendation and blissfully tank Typical was Arctco Inc., a snowmobile maker. "I must h called every snowmobile dealer in the country," says Yagh bi. Researching a possible "long" pick, Avon Products Inc., became an Avon representative. She would go to trade sho and she subscribed to 35 trade journals. At Tiger, the resou es were unlimited. "It's all about ideas, new ideas. To surv at Tiger, you've got to generate ideas," says Yaghoubi.

Recommendation after recommendation went on to perf handsomely. But soon, something started to happen. R ertson liked Yaghoubi's picks, but more often than not wouldn't act on them. Tiger simply couldn't amass a enough position in them to make much of a difference the huge portfolio. Robertson won't even look at a stock less he can take a $125 million long position or a $50 mill to $70 million short position.

Tiger: The Glory Days Are Over

Difference between Tiger's performance and the Standard & Poor's 500-stock index. Tiger figures are net of a 20% incentive fee.

1989 Rob[illegible] triun[illegible] from European stock picks, benefiting from the euphoria over the fall of the Berlin Wall

1990 Smart short-selling trumps a weak market, avoiding the crash in the Japanese market and the October minicrash

1991 A contrarian play on oil, designed by David Gerstenhaber, helps propel Tiger during an otherwise tough market

1992 Macro takes center stage, with smart currency and bond plays yielding gains that far outpace the S&P 500

1993 In the begin of the year, Robe son wins big fro short position on integrating Europ currencies

TRIN YAGHOUBI

r exhaustive research produced a string winners–then, more often than not, the ss stopped acting on her recommendations

After a while, it became clear to Yaghoubi that her talents e best used elsewhere. So a few weeks ago, she left to a smaller hedge fund more suited to her investment e. She was one of a succession of analysts—veterans and phytes—who've passed through what is an ever-faster olving door.

Yaghoubi's picks were the kind of stocks that propelled Ti- when it was smaller. Tiger is just too big for small ks nowadays. Yet Tiger is run just as it was when it was mall hedge fund buying—and shorting—mainly small cks. There is one portfolio manager, one decision-maker: an Robertson.

E INFORMATION MACHINE

can look at a long list of numbers in a financial state- t he'd never seen before and say, 'This one is wrong.' And be right."

—a Robertson associate who requested anonymity

t used to happen every day until 1993, when Robertson ved from the trading desk to his own office. On the screen e the prices of the stocks in Tiger's portfolios—all 100 of m. Just the prices, and the changes for each stock. Tiger ht own a million shares of one, 2 million of another. But 's not on the screen. Only the stock symbols, their prices, the change during the day.

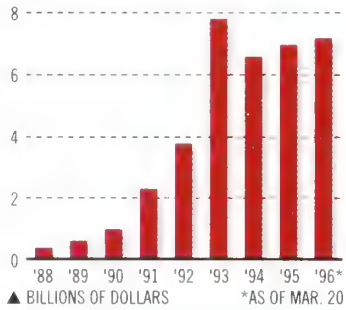
Robertson would call out a figure. He had calculated, in his d, the total change in his entire equity portfolio, down to raction of a point. Inevitably he'd be right. "I'm pretty d mathematically," says Robertson blandly.

Assimilating and sifting vast quantities of information is the ertson forte. Robertson's analysts give him ideas and a. He then makes the buy or sell decision—usually after cking and rechecking what they have to say. Other hedge- d operators, however, have found they can't run funds as -man outfits—not when they grow to multibillion-dollar . They are too large and complex—far more so than even largest mutual funds. Some large hedge funds, such as os' and Odyssey Partners, the money-management machine by Leon Levy and Jack Nash, delegate decision-making er. Soros even let one of his top analysts—London-based macro guru Nicholas Roditi—run an entire fund under his watchful eye. Under Roditi, Quota fund more than doubled in value in 1995, far outpacing Soros' flagship Quantum fund. Such independence is unheard-of at Tiger.

Size and centralization have clearly hurt Tiger. Another negative is that Robertson has pushed stock-picking even further into the background as macro bets on currencies and bonds have dominated Tiger. He no longer visits corporate managements, and most of his extensive travel during the year is spent educating himself about currency and interest-rate trends. It can be an exhausting pace.

On one recent visit to his office, Robertson was preparing for a tour of Frankfurt, Paris, Hong Kong, Bangkok, Kuala Lumpur, and Tokyo—all in two weeks. He prepares in the usual manner. Research and more research. Interrupting a conversation with a visitor, he takes a call from Hong Kong—Morgan Stanley's former chief global investment strategist, David Roche. With Roche on the speakerphone, the discussion switches from stocks to the intricacies of Indonesian economics to the latest trading by another hedge fund in Hong Kong stocks. Indonesia intrigues Robertson, and so do the currencies of the southern Pacific Rim. The Thai, Singapore, and New Zealand currencies have great potential to appreciate vs. the yen, in his view. Robertson terms Indonesia "an interesting currency play." And then there is Japan—"the most beautiful place to invest in the world," he later remarks. "The worst companies sell at the best [price-earnings] multiples and the best at the worst multiples."

TIGER'S ASSETS HAVE HIT A PLATEAU



DATA TIGER MANAGEMENT CORP

The two men discuss possible contacts for Robertson in Hong Kong and Djakarta. Robertson plans to go from Frankfurt to Paris before jetting off to Hong Kong, but he was willing to return to Frankfurt if he could get in to see Hans Tietmeyer, president of the Bundesbank. Asked about Tietmeyer later, Robertson bristles. "George [Soros] walks in and says, 'I need to see you,' and they fall in line. He would have had the appointment with Tietmeyer lined up months ago." As Robertson leaves on the trip, he still doesn't know if Tietmeyer will see him.

BEGINNINGS

"I think Julian's competitive instincts come from the fact that he's a North Carolinian. We've always been second fiddle, stuck there between Virginia and South Carolina."

—a longtime Robertson acquaintance from North Carolina

It took quite a while for those competitive instincts to emerge. Robertson was from Salisbury, nestled between Charlotte and Winston-Salem. He likes to portray himself as a "typical small-town boy," but there's no doubt that he came from the right side of the tracks. His father, Julian Hart Robertson Sr., was an achiever in his own right—an Army lieutenant in World War I at 18, a college graduate at 19, then a fast-rising executive in the North Carolina textiles industry. "He was a tough, demanding father," Robertson recalls. But young Robertson was an underachiever in high school and at the University of North Carolina, where he graduated with a degree in business administration. He

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d-1994
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n, Mexico, and
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Late 1994
Internal bickering disembowels the Tiger macro machine, with Robertson making ill-fated bets on European and Japanese bonds

Early 1995
Tiger underweights the U.S. market, missing a rampaging bull market

1996 A long-standing bet against the yen begins to pay off

In the early '90s, even some promising junior analysts fre

was mediocre in pretty much all his subjects—including math. "A late bloomer," as he puts it. "All my friends were like that, and they turned out all right."

After a stint in the Navy, Julian Jr. moved to New York to join Kidder, Peabody & Co. as a sales trainee. Then came a long sojourn at Kidder—20 years as a stockbroker, becoming one of the firm's top producers. He then was named head of the money-management unit, Webster Management. He left Kidder to start Tiger in May, 1980.

In the beginning, it was just Robertson and Thorpe McKenzie, a fellow Kidderite who soon went off on his own. The early numbers were brilliant—such as the 24.3% gain the Tiger fund recorded in 1981, vs. a 5% decline in the S&P. That was 19.4%, after the incentive fee—20% of profits and 1% of assets, which is standard for hedge funds.

Cover Story

Tiger remained a small operation through the 1980s—just a handful of analysts and Robertson. He was little known except in the gilded precincts of hedge funds. And he liked it that way. Like Soros and most other investors, he was caught short by the crash of 1987. But canny investments worldwide, including an early move into global stocks, kept Robertson's performance glorious at a time when other money managers were suffering. In 1989 and 1990, Robertson flawlessly timed the soaring German stock market, and he went short the Japanese market in time for the crash there. By 1991, Tiger was fast approaching $1 billion (chart, page 73).

As Tiger grew ever larger, two things happened: Robertson began to focus on global stocks, and his temper, always looming in the background, became more and more a negative as the staff multiplied. It is a legendary temper—one that former Tigerites speak of with fear and awe. It is unpredictable, they say, and frightening. "Julian can be rational one minute and irrational the next," says one former Robertson associate. "He would remember something that happened months ago and yell at you about it. He would turn blotchy red." Robertson admits that he can lose his cool but says his relations with his "employees and peers" are good.

Back then, Robertson's temper did not interfere with the only thing that really mattered: the numbers. They were terrific. Pay scales were skyrocketing. Then as now, Tiger analysts were paid a share of the 20% profit allocation. In 1993, the 80% gain in Tiger's $3.7 billion in stock and macro portfolios resulted in profits of about $3 billion, of which about $600 million went to Tiger as a profit allocation. Former analysts say Robertson gets about 60% of the allocation. Robertson acknowledges that he gets about h of it. In 1993, that would have netted him an astonishing $ million. (The numbers are skewed by the fact that the shore Jaguar fund has a different fiscal year than the U partnerships.)

In addition to the $300 million, Robertson would ha picked up a share of the 1% management fee, not to ment his stake in the profits as a big investor in the Tiger partn ships. Robertson won't say how much of Tiger he owns acknowledges that his stake is substantial. If it's just 25% 1993 that would have given him profits, on paper, of so $750 million. Added to his $300 million paycheck, that resu in a gain to Robertson, in 1993, in excess of $1 billion.

Tiger analysts also raked in extraordinary amounts cash. Back in the early '90s, senior analysts took home wards of 2% of the allocation, and even some promising j ior analysts received as much as 1%—a cool $6 million somebody just out of business school.

Such massive wealth was the lure of the macro era— heyday of global bonds and currencies. It was macro t moved Tiger to the summit from which it was about descend.

SCALING THE PEAK

"It is unfortunate that we have such a great fear of failu because it is success that is far more dangerous to the hum condition."

—Aaron Stern, in his book *ME: The Narcissistic Americ*

In the macro world of early 1990s, where $1 in ass could often support a $100 p tion, there was only one t star—George Soros. Soros w the master at translating bro brush economic trends i highly leveraged, killer plays bonds and currencies. Robe son had no background in m ro. So he reached out, as he ten does, to Morgan Stanley

Robertson had long had eye on David Gerstenhaber London-based economist a rising light at Morgan. He n Gerstenhaber at a Morg Stanley conference in the Fl ida Keys in 1987, and in t succeeding years Gerstenhab was often called by Roberts for advice, mainly regarding Japanese market. It was a t ical Robertson head-hunti stratagem. "I didn't realize at the time," Gerstenhaber calls, "but Julian was testi me." He passed the test.

The Gerstenhaber-Roberts relationship was lucrative—a stormy—from the start. It w early 1991, and the conventi al wisdom held that the P sian Gulf war would bri about another energy cris Gerstenhaber was bearish

ROBERTSON'S TOP STOCKS

The following are the 15 biggest stock holdings in Tiger Management's portfolios as of Mar. 15

STOCK	DESCRIPTION
AMR	Airline holding company
ASTRA	Swedish pharmaceutical giant
BARCLAY'S	British money-center bank
CARNIVAL	Cruise-ship conglomerate
CITICORP	Money-center bank
G-TECH HOLDINGS	Lottery equipment company
LORAL	Defense contractor
MONSANTO	Chemical company
SWISS REINSURANCE	Huge Swiss insurance conglomerate
TOSCO	Independent oil refiner
TRANSOCEAN	Norwegian oil-drilling company
UNI STOREBRANDS	Norwegian insurance company
WORLDCOM	Telecommunications company
WELLS FARGO	Bank holding company
XTRA	Truck-leasing company

DATA: TIGER MANAGEMENT CORP

# of B-school took home as much as $6 million in a year

"I was dead convinced that every rust-bucket tanker s full of oil," says Gerstenhaber. He constructed a position, ng derivatives, in which Tiger would short oil prices while ting risk—as Robertson wanted. Still, the two men were dly the best of buddies. Gerstenhaber, like Robertson, s no shrinking violet. Robertson does not exactly wax talgic about their collaboration and minimizes Gersten- er's role. "He was the implementer," says Robertson. ecisions of any real size were made by me."

That's undoubtedly true, for only Robertson ever made important decisions at Tiger. If anything, his urge to trol seems to have grown through the years—to the

DAVID GERSTENHABER

Robertson hired the macro whiz away from Morgan Stanley, and the pair amassed huge returns–until their stormy relationship fizzled

nt of intervening, one ex-Robertson associate insists, in techniques used by window washers outside the building: think they were going left to right and he felt they uld use the squeegees up and down." That is hotly denied Robertson.

Gerstenhaber and Robertson—two strong, controlling per- alities—were destined to collide like two freight trains on same siding. And they did. But it was a grand partner- o while it lasted. By 1992, when the portfolios charged ad 34% before fees, about two-thirds of that sum came m macro bets. In 1993, when all the major hedge funds red big from the demise of the European currency system, cro was Tiger's money machine. Of the 80% gain before s, 48% came from macro and 32% from stocks.

Given his tense relationship with Tiger, it was no sur- se when Gerstenhaber left in mid-1993 to set up his own lge fund, Argonaut. He started with 50 times the $8 million t Robertson began with. In 1994, Argonaut tanked. But in beginning at least, Robertson admits, "I was a little jeal- ." How did Gerstenhaber get all that money? Investors re flocking to Tiger as well as Argonaut and other hedge ds to make currency and bond bets. It was a decision they would soon regret. And few have more to regret from the reversals in macro than Julian Robertson.

THE UNRAVELING

"The best thing we can say about the first quarter of 1994 is that it is over."

—Julian Robertson, in an Apr. 8, 1994, letter to investors

When Gerstenhaber left—taking his key people with him—Robertson became his own chief macro analyst, crossing the globe feverishly in search of macro ideas while he embarked on an intense hunt for a new macro analyst. As always, Robertson was accompanied on these treks by John Griffin, his chief aide. Griffin, who turned 29 in 1993, was one of a handful of key aides on whom Robertson began to rely increasingly—sparking the jealousy of less favored analysts.

But Robertson recognized that he needed another Gerstenhaber. He again reached across the Atlantic for macro brainpower—a Scottish-born global economic strategist at Goldman, Sachs & Co., David Morrison, and Goldman bond market strategist Jeremy Hale, both in London. Morrison was signed on at the beginning of 1994 to head the macro operation. At 41, Morrison was a comparative geriatric by Tiger standards, but as a dedicated auto racer he reflected the jock ethos that was ingrained in the Tiger corporate culture. In the typical Robertson manner, he had scoped out Morrison before hiring him—meeting with him three to four times a year and chatting often by phone.

So they were pals—until he was hired. Almost immediately, as with Gerstenhaber, conflict began. For starters, Morrison was a Londoner, and he wanted to stay there. Robertson wanted him in New York. Morrison prevailed, but the argument was just the first of a series—over far more important things than who would live where.

As the year began, Robertson was bullish on the dollar and bearish on European interest rates. He was long in the Hong Kong, Korean, Swiss, and British stock markets and short in Japan, France, and Germany. Morrison felt quite differently about pretty much everything. "We didn't expect that Julian would jettison his views in favor of ours," says Morrison. And he didn't. "Julian is strong and expressive," Morrison says, diplomatically.

By the end of the first quarter of 1994, the damage had already been done. Robertson was down 12% and never recovered, mainly due to misbegotten macro bets. By yearend, Tiger was down 9.3% while the S&P 500 was up 1.3%. Robertson had failed at one of the basic functions of a hedge fund—to provide a cushion against a weak U.S. stock market. The suffering continued in 1995. Tiger's positions in global equities were up just 10%. In the U.S., with the S&P up 37%, Robertson was up just 7%. The reason was telling for this onetime ace in U.S. equities. In a letter to investors early this year, he blamed the

Investors, particularly Europeans, fled en masse in 1994–

disaster in U.S. stocks "to our low net [long vs. short position] exposure and our less than stellar stock-picking."

Macro continued to generate mainly grief last year, as Robertson's bickering with Morrison continued. A play on the weak yen counterbalanced losing positions but lifted Robertson's assets by only six percentage points. He profited from German, U.S., and Spanish bonds but canceled out gains by being short Japanese and Swedish bonds. Stock positions in Britain, Ireland, India, and Canada were all losers.

As the dreary performance dragged on, former employees say Robertson became less accessible to his army of analysts. Opportunities were sometimes lost. "By the time you got Julian's attention," one ex-analyst notes, "the buying opportunity could have ended."

Another byproduct of Tiger's decline was the departure of investors. One former Robertson associate notes that investors, particularly Europeans, left en masse early in 1994 and that the departures continued at a slower pace in 1995. Tiger is mum about withdrawals, saying through a spokesman that they are "not substantial given the size of the asset base." However, the magnitude of the departures can be estimated from the asset numbers by comparing the size of the asset base and the performance of the fund. All told, some $800 million was pulled out of Tiger in 1994 and 1995.

The sour times weighed heavily on Robertson. Impulsive and disorganized, he was hardly a textbook manager in the best of times and could become positively unglued in times of crisis. One former Tigerite remembers the occasion, around the time of the 1987 crash, when Robertson felt he needed to reduce staff. Pretty much at random, he pointed at a group of people and ordered them fired. They were consultants from Morgan Stanley and didn't even work for him. That is denied by Robertson.

Meanwhile, the revolving door of investment pros picked up steam through the 1990s. The stress of working at Tiger—exacerbated by Robertson's violent temper—was one reason. So was the fact that analysts simply did not have the ability to establish a track record by running a portfolio at Tiger. The departed included experienced veterans and promising neophytes. O went Arnold Snider, st pharmaceuticals analy and Lou Ricciardelli, former Morgan Stanl trade-operations expe who straightened o Tiger's problem-plagu back-office systems. C went analysts Lee A sley and Patrick Du and Larry Bowman a Bob Bishop and tradi chief Tim Henn and . . . the list goes and on. One unexpect loss was Griffin, who w widely viewed as a po sible successor to Ro ertson. Griffin would comment, but his frien say that he, too, gre tired of working und the shadow of the bo and—though he h some trigger-pulling ab ity—of not being giv enough autonomy.

As the old have go and the new have a rived, Robertson h come to rely ever mo heavily on a handful key analysts and adv ers—and at the top the list is Dr. Aar Stern.

DAVID MORRISON

The Scottish economist succeeded Gerstenhaber as Tiger's macro specialist in 1994. Soon, he would discover that he and Robertson almost never agreed

Cover Story

THE PSYCHIATRIST

"Dr. Stern told me that Julian was very excitable, that h got a temper, and that I shouldn't take it personally."

—a former Tiger employ

Hedge funds are Wall Street's last bastion of rugged ind vidualism, with even the largest tending to eschew the tra pings of management. But Tiger needed management, a structure. Or to put it another way, Julian Robertson need it. "If something happened and he needed someone to something, somebody would walk by and he'd grab him a say, 'Handle it,'" says one former analyst. "It didn't matt who it was. It could be the plumber."

Enter a management committee and a board of dire tors—and Stern. Stern is a Tiger consultant and board mem ber and according to Robertson, also a member of the Tig management committee. (That is denied by Stern, who sa he attends committee meetings but is not a member.) sharply dressed man of about 70, Stern is a Freudian-train psychoanalyst who, in the early 1970s, headed the movie-ra ing unit of the Motion Picture Association of America.

How can a psychiatrist help Tiger? Stern says he does n practice psychiatry at Tiger, but that he "meets with people the analytical side on the infrastructure of Tiger and the r cruitment process," as well as interviews job applicants. Ro ertson says Stern was brought in, a couple of years ago, to de with outplacement counseling of some bright young analys

e the revolving door of investment pros picked up speed

had to be let go. The aim, he says, was to bolster the self-em of young people who had never experienced failure.

ut former employees say that if anyone receives counsel-rom Stern, it is Robertson. They maintain that Stern's du-include calming down Robertson when he has a tantrum informing Robertson of employee sentiments about him. former well-placed Robertson associates maintain that n was brought in at Lewis Bernard's insistence after a ting at which Robertson had a violent tantrum. The alle-ons are hotly denied by Robertson, Stern, and Bernard. n says that while he counsels Robertson after outbursts, oes so as a "friend," not as a therapist. He denies that he ever violated employee confidences and says that such al-tions are sour grapes by disgruntled former employees.

POWER BROKER
Robertson (with five of his firm's managing directors) says he has considered giving more authority to his people but hasn't done so

hatever Stern's role at Tiger, there's no question that ertson's hot temper and controlling management style weighed heavily on the company. Smart management become just as important as stock-picking—and it just there. As the experience with Morrison proves, not the smartest people can be of much use if they aren't ned to.

as Robertson considered giving more authority to his le to act on their own ideas? "We've thought about it," Robertson. "There may be a time when we go more to-l that direction." But not now.

RNEY'S END

re are not a whole lot of people equipped to pull the er."

—Julian Robertson

obertson is back from his tour of Europe and Asia. At his was Chris Shumway, another bright, young, and trusted —yet another young John Griffin, so crucial that nway's desk is in a corner of Robertson's office. Robert-never got in to see Tietmeyer. If it hurts, it doesn't . Overall, he says, the trip was "fantastic." While he was , the press was alive with talk of the "carry trade," in which hedge funds—including Tiger—supposedly borrowed yen to buy U.S. Treasuries. Robertson is unimpressed, contemptuous. "We're not borrowing from the Japanese banks to fund our bonds," says Robertson. No, but he has been short the yen for a long, long time, and he does own U.S. Treasuries—and in quantities far larger than the $3 billion suggested by the press. His short-yen, long-treasuries position was a major contributor to the gains in early 1996—and as happens with highly leveraged bets, this one turned sour pretty quickly. Tiger was up 17% by the end of January. By Mar. 13, it was up only 10%, with the worst damage done on Mar. 8—the bond-market debacle.

Robertson blushes, his mood visibly darkening, when he is told of the negative comments concerning his temper, his overcontrolling management style, and particularly his relationship with Stern. He presses a reporter for the names of former employees who provided information, volunteering names—as does Stern—of former employees who might have an ax to grind against him. One, he noted, was pressing a sexual harassment case against Tiger. He observes that another, a former employee whom he suspects has spoken against him, was a "divorcée" who kept "smoked salmon in her desk." He says he was not, for the most part, upset by the employee departures. Volunteering an example, he notes that one prominent ex-analyst was "asked to leave."

Robertson softens when the conversation turns to his boyhood in North Carolina and his personal life. Tiger, he says, was named by his son Spencer, when he was a small boy. Robertson reels off the names of his children: Julian III, Spencer, and Alexander. Spencer? One ex-employee says that two of his children were named Julian. Robertson, reluctantly, concedes that point. "His name is Julian Spencer. Spencer was my mother's maiden name, and my father thought there should be another Julian in the family."

Robertson's parents only recently passed away, his father just a year ago. "Maybe he was too controlling," he says of his father. "I've tried not to be too controlling. I've tried not to do that with my children." He has not, he says, "left them with a legacy," and has not tried to encourage them to join the business.

Perhaps that's for the best. But Robertson has another family—his once glorious hedge-fund empire. It is a dysfunctional family of brilliant analysts, headed by a master stock-picker. If only it worked, it would be a monument to greatness—and not to the fall of the Wizard of Wall Street.

By Gary Weiss in New York

FUNDS

THE STAMPEDE TO INDEX FUNDS

At $400 billion strong, they put stock-pickers to shame

Why settle for average? Investment chieftains of many big pension funds are doing just that and licking their chops. They're tying bigger and bigger chunks of their equity investments to Standard & Poor's 500-stock index or some other market average. The majority of managers who try to beat the market by dissecting balance sheets, quizzing chief executives, and furiously trading stocks are coming up short. "It's sort of like par golf," says George U. Sauter, who heads index funds at the Vanguard Group. "Par is average, but how many golfers actually beat it?"

Two decades after the first index funds were launched, indexing is hotter than ever. In the 12 months ending Dec. 1, assets indexed to the U.S. stock market grew 46.9%, to $400.2 billion, according to *Pensions & Investments (P&I)*. After accounting for market appreciation, that's about 7% real growth. Add international and bond index funds, and the total comes to $600 billion. Those numbers include the indexed investments of a growing number of individual investors as well. During 1995, index funds accounted for about 10% of the cash flows to equity mutual funds, according to Strategic Insight Inc., a mutual-fund consulting firm. The Vanguard Index Trust 500 Portfolio, the largest and oldest indexed mutual fund, almost doubled and is now the fourth-largest equity fund.

MARKET PROP. Part of the reason for index popularity is the bull market—with the S&P rising 37.6% last year and tagging on another 5.5% so far this year. Since an index fund is always fully invested in stocks, it's an ideal investment in a roaring market. But even in 1994, a choppy year in which the S&P finished up 1.3%, most investment managers failed to beat the benchmark. T more investors decide to put money the indexes, the more those decisi reinforce the indexes' strengths and p vide a significant prop to the stock m ket. Every new dollar plunked into S&P index fund is invested in the sa list of stocks, starting with Gene Electric Co. and AT&T and moving do the line.

The S&P 500-index is the most po lar, but broader ones such as Wilshire 5000 and small-stock inde including the Russell 2000 are incre ingly used for indexing. So pension funds, such as th of Florida and Colorado, employing "enhanced" in strategies, which tweak the dex funds in small ways scratch out some extra retu

Indexing is going abroad well. International index fu grew at about twice the r of U.S. index funds last y adjusted for market appre tion, reports *P&I*. In Dece ber, London's Barclays Ba PLC spent $443 million to quire San Francisco-ba Wells Fargo/Nikko Investm Advisors, the largest mana of index funds. The plan: port indexed investing, wh is mainly a U.S. business, clients around the world.

401(K) POWER. The rush to dexing is showing no sign a letup. The huge number dollars that pile up in country's megafunds almost mand it. "Once a pension fu has over $1 billion in asse it has no choice but to st indexing a significant port of the portfolio," says Steph L. Nesbitt, senior vice-pre dent for Wilshire Associa Inc., a pension-fund consulta "With really large funds, act management will just revert to mean." In other words, they earn just a market return—l management fees and transact costs. Nesbitt says the ve largest pension funds—those w more than $5 billion in asset will likely have at least half th assets in index funds. At the billion Colorado pension fund, two-thirds.

The proliferation of defined-c tribution pension plans, such the 401(k), is also fueling growth indexing. In fact, much of the r tual-fund money that is getting

MOST DON'T BEAT THE INDEX

	S&P 500 TOTAL RETURN	MANAGERS BEATING THE S&P 500 MUTUAL FUNDS	INSTITUTIONAL FUNDS
1995	**37.6%**	8%	29%
1993-95	**15.3**	21	32
1991-95	**16.6**	26	47
1986-95	**14.9**	14	33

Includes reinvestment of dividends and capital gains. Multiyear periods are average annual returns. Mutual funds are U.S. diversified equity funds, after expenses but before sales charges. Institutional fund returns are before expenses.

DATA: MORNINGSTAR INC., SEI CORP

ed came through these plans. Now, at 46% of 401(k) plans offer equity x funds—a figure that rises to 60% lans with more than $200 million in ts, according to Bob Wuelfing, pres- t of Access Research Inc., a con- ng firm specializing in 401(k) plans. lfing says equity index funds are on the list of features plan sponsors to add to their programs.

or sure, what has put indexing in imelight again is that it has been so essful (table). In 1995, just 29% of "active" managers—those who pick ks the old-fashioned way—beat the 500, according to SEI Corp. Mutual- managers did even worse: Only of the diversified U. S. equity funds ed the index last year, according to ningstar Inc. The stock-pickers' re- s are better over the longer periods, not by much.

ED ATTRACTION. Bull markets come go, but index funds have more en- ng attributes. Mainly, they're cheap perate. Big pension funds pay 1 to 2 points a year, or 0.01% to 0.02% of ts, as a management fee, vs. 0.40% .50% for active management. L. ert Frazier, assistant treasurer for t management at Kimberly-Clark ., estimates the company's pension should save about $100 million in over the next decade through in- ng and enhanced strategies. Ninety ent of Kimberly-Clark's $2 billion ion fund is indexed.

here are other savings. Since index s don't trade much, they incur few mission and market-impact costs. n they do trade, it's mainly in large d stocks, where costs are the low- In the case of mutual funds, index- has an added attraction: Because don't trade stocks, there are few if taxable capital-gains distributions. ost all taxes are deferred until the eholder cashes out.

dexing has its critics, of course. In- ment consultant James Hamilton of ilton & Co. warns that index funds good because of the favorable mar- conditions. When the market drops, offer no cushioning. "They've got a unprotected downside," he warns. ey've been able to ride out the bear kets because the bear markets have short. What if you get a two-year market like we had in the 1970s?" still believes that smart, active man- s will best the index funds any day. o doubt the big pension funds will inue to search for market-beating agers. But they'll be more wary t which managers they place their on. With indexing an attractive al- ative, they can afford to be choosy.

By Jeffrey M. Laderman in New York

WHAT IT TAKES TO STAY IN THE VANGUARD

In the mutual-fund world, the "hot" fund is the one that leads the pack in performance and pulls in the cash. The Vanguard Index Trust 500 Portfolio, a mutual fund with a portfolio that duplicates the Standard & Poor's 500-stock index, is one hot property. During 1995, the fund's assets swelled 86%, to $17.3 billion. So far this year, investors have put in an astounding $2.1 billion. "I'm a little worried that the index fund is hot," admits John C. Bogle, Vanguard's chairman. "Hot is not our style."

SAUTER: *Beyond the S&P index*

Perhaps not. But index funds are in. They're cheap to operate, and they deliver the goods, which is Vanguard's style. And it explains why this company has made indexing a cornerstone of its operation while most fund companies don't offer it. What's more, even those that do can't beat the Vanguard's S&P-500 rock-bottom expense ratio of 0.19%. In contrast, expenses at Fidelity's and T. Rowe Price's index funds run 0.45%, and at Dreyfus, they are 0.61%.

CAREFUL INVESTING. Low expenses give the index funds a head start over actively managed mutual funds. Last year, the average equity fund incurred expenses of 1.28%. That means other fund managers have to take bigger risks to earn over 1% more just to stay even with the Vanguard 500. George U. "Gus" Sauter, the fund's manager, has a less daunting task: He has to make sure the fund is investing its money in the correct proportions so that it tracks the index.

Vanguard launched the first index mutual fund in 1976 with only $11 million in shareholder money. But in the 1980s, investors discovered the S&P fund, and by 1987, the fund hit $1 billion. "That's when I knew we were a success," says Bogle. That's also when Sauter, a University of Chicago MBA, came on board to run the fund and develop other indexed equity products.

Vanguard currently offers 17 equity and 6 bond index funds, and all index-fund assets total $42 billion. For investors who want small company stocks, the Small Capitalization Stock Portfolio tracks the Russell 2000 index. Vanguard's Extended Market Portfolio covers smaller stocks as well, starting where the S&P 500 leaves off and picking up the other stocks that make up the Wilshire 5000. The Total Stock Market Index covers the entire Wilshire universe—large- and small-cap stocks.

All of those funds are enjoying growth spurts, too, as are the international index funds: European, Pacific, and Emerging Markets. A new fund will soon tie those three into one international index. Also in the works is an index fund that invests in real estate investment trusts.

In pushing beyond the S&P, Sauter is challenging the conventional wisdom that active managers can exploit inefficiencies in smaller-cap stocks and foreign markets that don't exist among the U. S. blue chips. "Perhaps so," says Sauter, "but can they flesh those inefficiencies out in a cost-effective way?" In less liquid foreign markets, he notes, the high management and trading costs chew up those profits, leaving index funds—which have no active management and do little trading—with a distinct advantage. From 1991 to 1995, for instance, Vanguard's European index fund beat 80% of its competitors. Last year, the new emerging-markets index fund bested nearly two-thirds of its peers.

It's a bit too soon to tell whether or not Vanguard's newer index funds will match the success of its flagship. But so far, they're off to a mighty good start.

By Jeffrey M. Laderman in Valley Forge, Pa.

BY GENE G. MARCIAL

GABELLI'S HEART IS WHERE THE HOME IS

How much higher? That, says money manager Mario Gabelli, isn't the issue. The pressing question: "Where to find bargains in this roaring bull market." As keeper of $10 billion in investors' assets, Gabelli Asset Management and its group of mutual funds hold at least a 5% stake in more than 100 companies. So it's essential, says Gabelli, to flush out "values that have been unjustifiably battered or ignored, or are simply undiscovered." He thinks the next batch of winners will be in the economy's depressed sectors.

With the economy on the go—and housing construction stronger than expected—Gabelli thinks that makers of housewares, furnishings, and building materials will shine.

Gabelli's picks: General Housewares (GHW), a Big Board-listed maker of cutlery, pots and pans, and other kitchenware; Nortek (NTK), which produces plumbing, air-conditioning, and music-intercom systems; and Ampco-Pittsburgh (AP), a manufacturer of heating coils, pumps, and rolled metal sheets used in aluminum siding and appliances. "Not exactly sexy plays, but they're companies that do exceedingly well in an improving economy," says Gabelli.

BARGAIN HUNTER

General Housewares has added allure: It's a rumored buyout target, says a New York investment banker who believes a conglomerate has taken a 4.9% stake. The banker says this group is known for acquiring big positions in companies—and it often leads to a merger. He figures General Housewares is worth 20 a share in a takeover.

Gabelli, whose group owns 17% of General Housewares, says he doesn't know of a buyout. But he calls it very attractive at its current price of 9¼.

So is Nortek, he says, of which Gabelli holds 15%. About 60% of its 1995 sales of $776 million came from the remodeling and renovation market—and the rest from building new houses. Nortek, he notes, has engineered a turnaround: After several years of losses, Nortek made a profit in 1994. It earned $1.19 a share last year and should make $1.50 this year, estimates Gabelli. In 1997, look for $1.70.

Gabelli's Best Bets

STOCKS	STOCK PRICE	EST. 1996 EPS	TARGET PRICE
GEN. HOUSEWARES	$9¼	$0.95	$20
NORTEK	10¼	1.50	25
AMPCO-PITTSBURGH	10¾	.90	20

DATA: BLOOMBERG FINANCIAL MARKETS, GABELLI FUNDS INC.

Ampco-Pittsburgh "is another downtrodden stock that we think is underpriced," says Gabelli, whose funds own 19% of the stock. The company has a strong balance sheet: almost no debt and a cash hoard of $3 a share. Ampco, which made 94¢ a share last year, is expected to earn only 90¢ this year but should make $1.75 in 1997.

IS INTUIT'S BAD KARMA ENDING?

After a series of unlucky breaks, Intuit (INTU)—whose shares tumbled from 89¼ in early November to 49 on Mar. 19—may give investors wonderful news: buyout talk, to be more precise.

This maker of personal-finance and small-business accounting software has suffered severe blows since last May, when Microsoft withdrew its offer (made in October, 1994, when the stock was at 55) to buy the company for $114 a share. The offer had lofted Intuit into the 80s, but it plunged to 57 when the deal was pulled. And just when the stock started to perk up, to 67, it got nailed again: On Mar. 1, it warned that earnings would be little changed in the second half of its fiscal year ending July 31, 1996. That sent the stock to 50½. Then, on Mar. 18, Microsoft unveiled plans for providing Internet hookups between consumers and banks—challenging Intuit in online banking. The stock again reeled—falling to 48½.

No matter, say investors who are suddenly bullish on Intuit. They are convinced that a major designer of standardized software, with revenues of $2.5 billion, is seeking to buy Intuit at 65 to 70 a share. This company's integrated software is used on systems produced by IBM, Digital Equipment, and Hewlett-Packard, among others.

Intuit's software would provide a useful fit with the buyer's software line, says one New York investme manager. And with the potential bu er's deep pockets and market penetr tion, Intuit would be able to batt Microsoft's incursion into its turf, sa this pro. A spokeswoman for Intu says it isn't for sale.

FEELING A RUSH AT COLUMBIA LABS

In the past three years, the shares Columbia Laboratories (COB) ha forged ahead, rising from about 4 11¾ lately. But guess what? They' destined to hit 20 by yearend.

So says Bart Blout, president Sawtooth Capital Management a vice-president for research at Stron Susskind Securities. The two firms o a combined 10% of Columbia. Also bu ish is BioVest Research analyst Edd Hedaya, who thinks Columbia will sta making money this year. Based on fa moving events and revenues from i products, he thinks Columbia could s its earnings double each year over t next two years, to about $1.50, up fro an estimated 23¢ this year.

One reason is a pact that Colum signed last May for American Hon Products to market worldwide its ch product—Crinone—a vaginally appli hormone replacement for post-men pausal women. American Home pa Columbia $6 million upon signing a will make further payments totali $19 million—for overseas approvals a upon reaching certain sales levels. A proval of Crinone in Britain, for i stance, triggered a $2 million payme in June, 1995. And this January, the was a further $1.5 million when t drug got the nod from French regul tors. Germany and Italy should gi the O. K. in a few months.

Thus, American Home may laun Crinone in Europe in the second half this year. Introduction in the U.S. expected by 1997, pending Food Drug Administration approval. Colu bia gets a 30% royalty on sales.

Columbia has another blockbust in the pipeline: SPC3—a drug that cou block all strains of HIV from enteri susceptible human cells. The compa has filed an FDA application to sta clinical trials of this AIDS therapy.

Some observers believe that, on Crinone is launched, American Hon will acquire Columbia Labs. "Tha certainly a logical possibility," says Columbia insider.

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COMPUTERS

DOWNTIME FOR THE PC BIZ

Sales are slowing fast. Are cheaper machines the answer?

FEWER TAKERS: *A New York computer store*

William Y. Tauscher, chairman of Vanstar Corp., stood on the floor of the New York Stock Exchange on the morning of Mar. 8, facing a TV camera. Around the world, 4,000 employees were tuned in to a closed-circuit network to join the action as the first Vanstar shares changed hands. Instead, Tauscher, who had spent five years remaking the failed ComputerLand PC store chain into a provider of personal-computer and networking services, had to announce that the offering had been delayed. The culprit: a stock market spooked by the prospect of a slowdown in PC sales. Three days later, the shares came out—but at $10 a share, down $1.50 from what Tauscher had hoped. "One could have picked a better week to be doing this," he says.

Not lately. Every week brings more sober news about the state of the PC industry. On Jan. 16, Intel Corp. Chief Financial Officer Andy D. Bryant said the chipmaker's first-quarter sales would be flat with the fourth quarter, the first no-growth quarter in four years. Then on Mar. 4, Compaq Computer Corp. announced that first-quarter sales were soft and that profit margins were falling. Three days later, IBM Chairman Louis V. Gerstner Jr. told Wall Street that he was disappointed with PC growth in the U.S. On Mar. 19, chipmaker Cirrus Logic Inc. cut 13% of its workforce, blaming weak PC sales.

It was bound to happen. The gravity-defying PC industry is falling back to earth—mostly because of a sluggish U.S. market. After humming along for the last three years at 25% to 30% annual growth rates, analysts now expect 1996 industry growth to drop sharply. U.S. PC shipments will grow around 12% in 1996, down from a robust 22% last year (chart), predicts market researcher Computer Intelligence InfoCorp.

What's behind the numbers? First, sales to corporate buyers, educational institutions, and the government—which make up half of all PCs shipped—are stalling. The reason, say market researchers, is that many of those customers are holding off in anticipation of a new version of Microsoft Corp.'s Windows NT operating system due out this summer with a Windows 95 user interface. At the same time, the white-hot home PC market is beginning to cool. PC makers seem to have hit a wall: They've stopped bringing broader s ments of the public into the PC mar because the machines are still too pri A few years back, industry executi had predicted 40% of U.S. homes wo own a PC by now. Instead, Dataqu Inc. says the number is closer to 29

It all adds up to a tough year for makers and their suppliers. The f victims are makers of key compone Texas Instruments Inc. and Mic Technology Inc. have already cited sl gish PC sales for a dip in shipments memory chips and earnings.

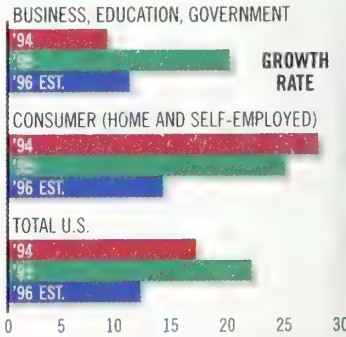
So far, software giant Mic soft says it's not detecting slowdown and claims to be track to ship more than 50 mil copies of Win95 by the end August, the product's first a versary. But the signals mixed for other compan "Some of our computer mak are slowing down, and some doing well," says Alan F. S gart, CEO of disk-drive ma Seagate Technology Inc.

GROWTH SPOTS. In the face market slowdown, many PC m ers will try to keep their facto humming by grabbing mar share. "Do I cut back on [r material coming in? Slow do on manufacturing output or ahead with plan and po through to the market?" asks Com CEO Eckhard Pfeiffer. "We've cho the latter."

PC companies could be in for a br ing. The most vulnerable are th without significant international b ness. Companies such as Compaq, and Apple get half their sales outs the U.S., where the slowdown is severe. Dataquest, for example, figu European PC growth will drop fr

PC BLUES

Sales growth in all segments o the U.S. market is slowing



DATA: COMPUTER INTELLIGENCE INFOCORP

to 20%. Analysts say home PC
er Packard Bell Electronics Inc. is
exposed because it relies so heav-
on the U.S. consumer market,
e competition is bound to become
more cutthroat.
gital Equipment Corp. has already
led the home market is too tough
other with. On Jan. 29, it pulled
plug on its Starion home PC, con-
g that it couldn't afford the battle
market share against better-known
petitors. Now, Digital says slug-
PC sales overall will hurt earnings
he quarter ended Mar. 30.
isn't all gloom in PC land, though.
of network servers are growing at
nnual clip of more than 30% so far
year. Laptop computer sales, after
g off a cliff in 1995, are expected to
up dramatically as PC makers
h to new Pentium-based models.
there's still opportunity to expand
hot-growth areas overseas—espe-
in the Asia/Pacific region, where
are booming. Analysts predict PC
in Japan of 6.5 million units, up
t 30%. As of last year, only 19%
apanese homes have PCs—a num-
ikely to hit 24% this year.
e immediate problem for PC mak-
though, is inventory. While Christ-
shipments were up 15% over the
h quarter of 1994, that wasn't
gh to clear the shelves. The retail
nel is now overloaded with every-
from disk drives and memory
ds to modems and monitors. That
s aggressive price cuts. In the past
weeks, Compaq, IBM, Hewlett-Pack-
and Dell have cut prices up to 30%.
en inventory gets out of hand, pric-
goes out the window," says Mary
, vice-president for commercial sys-
at PC maker NEC Technologies Inc.
ING ALL NEWBIES. Even if price
erase the inventory problem, PC
ers will still have challenges. The
est: slowing demand for home PCs,
h has been the engine for industry
th for the past few years. Esti-
s vary, but Dataquest figures that
onsumer market growth will plunge
e U.S. to as little as 8%—down
22% in 1995 and a sizzling 42%
year before.
he home market is played; that's
says Dataquest's Kimball Brown.
long-term trend is for slow
th." Brown maintains that the
in home PC sales from 1992 to
was a one-time event as computers
from glorified typewriters to mul-
dia entertainment devices and cy-
ruisers. "Suddenly, everyone had to
one," he says.
ow, first-time buyers are becoming
er. International Data Corp. esti-
s the number of newbies entering
the market could drop to 1 million this year from the 2 million-a-year rate over the past several years. Says Hewlett-Packard consumer PC chief Webb McKinney: "The key question is: How do we reach new people? We're still selling to the same old demographic, and I don't see lots of new buyers."

The answer may be simple: Instead of keeping prices steady while adding the latest technology, expand the market by selling cheaper machines. Indeed, the price of the typical home PC has held steady in the $1,700 to $3,000 range, but every year you get more for that price. Recently, instead of passing along lower memory prices, some companies have been pitching machines with as much as 24 megabytes of memory—or a third more than what most PC owners need—to keep prices up. "PCs are not affordable," says IDC analyst Bruce Stephen. Manufacturers, he insists, will have to market cheaper models to "build the next consumer wave."

There is evidence of demand for more affordable machines. Against the advice of Packard Bell, last fall Wal-Mart Stores Inc. ordered $1,000 home PCs based on trailing-edge Intel 486 chips. The entire allotment of 30,000 machines sold out over the Thanksgiving weekend. Indeed, NEC's Chin says 486-based PCs still represented 20% of last year's sales. Says Michael Feibus, a principal at Mercury Research in Scottsdale, Ariz.: "The BMW market has been saturated. We need to find the Yugo." Sounds simple. Now, all PC makers have to figure out is how to sell Yugos at a profit.

By Ira Sager in New York, with bureau reports

COMPUTERS

A PIP— OR A PIPSQUEAK?

Apple's Pippin lets a TV do a PC's work, but it may be too late

In his grim final days at Apple Computer Inc., former Chief Executive Michael H. Spindler took every opportunity to talk about Pippin, a technology that would be Apple's most aggressive move into consumer electronics. Based on a scaled-down version of the Macintosh operating system, Pippin would make possible gadgets to let the TV-viewing masses play Mac games and surf the Net from their couches. Even when Spindler was trying to calm the jitters of analysts who were spooked by Apple's sudden losses, he plugged the concept. "He talked about it like it would be the savior of the company," says CS First Boston Corp. analyst J. William Gurley.

WELCOME SCREEN
Apple's Chahil and Bandai's Yamashina take the Atmark combination game player-Internet browser for a test spin

The Pippin idea wasn't enough to save Spindler and in its first incarnation, seems unlikely to do much to alter Apple's fate, either. The first Pippin product, the $620 Atmark, was slated to start shipping in Japan on Mar. 22 from Bandai Co., the company that brought the world the Power Rangers. But at previews in the U.S. in early March, the system got a lukewarm response from software developers. Even if the Atmark lives up to Bandai's ambitious plans—Chief Executive Makoto Yamashina says the company will ship 500,000 units worldwide in the first year—Apple won't get much out of it. It receives royalties of $10 to $20 per machine and $1 per game disk.

The Atmark—the name comes from the @ symbol—bears the ill effects of

Pippin's long gestation. It started in 1993 as a portable game machine, but the project languished, and Apple began looking for licensees for a TV-based unit in 1994. Bandai had planned to bring Atmark out in December but then, working with Apple, decided to wait until March so they could add Internet access. By adding a modem and Web-browsing software from Netscape Communications Corp., they figured Pippin also could serve as a cheap Web cruiser.

By the time the Atmark arrives in the U.S.—Bandai says it will by year-end—there may be lots of Net cruisers around. In late April, Oracle Systems Corp. CEO Lawrence J. Ellison says he will announce plans by some of the world's top consumer-electronics giants to build his Network Computer design. And Sega Enterprises Ltd. is poised to bring out a cybercruising game machine—under the Atmark price.

"MODEL OF THE FUTURE." The Atmark, which works like a CD player and looks like a cable box, is impressive enough. It lets TV viewers play games, run educational software, and surf the Net. But to keep the price low, Apple chose a 14.4-kbps modem rather than the speedier 28.8-kbps type. A keyboard is an extra-cost option. Another minus: Text remains tough to read on the tube—an obstacle for all TV-based Net surfing.

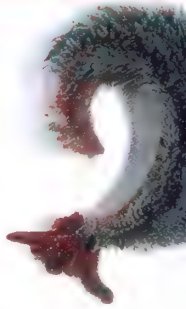
Pippin's real value may be in proving that Apple can be lean, mean, and entrepreneurial once more. Just 25 full-time Apple staffers work on the project. They are seeking electronics makers to sell Pippin technology in a variety of forms—embedded in high-tech TVs or as slick stereo components, for example. Target companies include Samsung Group and Mitsubishi Electric Corp., which already manufactures the Atmark for Bandai. "It's the business model of the future," says Apple Senior Vice-President Satjiv Chahil. Corporations could also use Pippin—to replace PCs in showrooms or training classes. TRW Inc. may buy 100 Atmarks to let employees look up benefits information.

For now, Apple has only Bandai. The $2.6 billion company says it will lay out its U.S. plans on May 15—including a $50 million budget to promote it in the [illegible]—slightly more than Sony Corp.'s $40 million campaign for the PlayStation, which costs half as much and is attracting the hottest new games.

At Apple, new CEO Gilbert Amelio shares his predecessor's enthusiasm for Pippin. "Gil sees Pippin as a first step customers can take to become familiar with Apple technology," says Apple Senior Vice-President Steven Franzese. If not the first step to Apple's salvation.

By Peter Burrows in San Francisco, with bureau reports

BIOTECHNOLOGY



EXTREME ENZYMES

Science is commercializing nature's diehard proteins

Thirteen degrees north of the equator in the East Pacific, a mile and a half below the surface, University of Delaware scientists in a submersible vessel collect worms with feathery bacterial plumage from the sides of hydrothermal vents where the water temperature reaches 185F. Half a world away, in Iceland, a German team collects hardy microbes from a vent spewing sulfuric steam into the air. In Israel, researchers hunt for bugs in the intense salinity of the Dead Sea. And from arctic pools, scientists collect bacteria that grow best at 32F.

Criss-crossing the globe, these scientists are chasing some of nature's oddest enigmas: microbes called extremophiles that populate the world's most inhospitable environments. These roaming scientists share something else, too: All are consultants and advisers to a small company, Recombinant BioCatalysis Inc. (RBI) in Sharon Hill, Pa. Its mission: to discover, clone, and commercialize unusual enzymes secreted by extremophiles.

BRAIN TRUST. For years, common enzymes—the protein catalysts that control the metabolism of all creatures—have been replacing expensive and polluting chemical catalysts used in the production of food, drugs, and paper goods. The trouble is, most of these enzymes are unstable at high heat or in solvents found in many industrial processes. That has limited their usefulness.

Enter the extremophiles—and RBI. Noting that many of the organisms thrive in just the sorts of toxic brews that industry likes to concoct, RBI CEO Barry L. Marrs—a former director of life sciences at DuPont Co.—has recruited top academicians who study th creatures. As consultants, they sh data with RBI and license the comp to commercialize enzymes from org isms they collect.

The quest carries them to sc bizarre locales. One RBI collabora University of Delaware marine biologist Craig Cary, has spent hours on the ocean floor in the Alvin, a U.S. Navy research submarine. With grants from the National Science Foundation, he studies the behavior of 4-inch-long Pompeii worms that live in holes on the sides of "black smokers"—underwater chimn that release jets of superheated wa laden with cadmium, zinc, and ot metals toxic to most creatures.

HOME IN HELL Pompeii worr (top photo) inhabit "one the harshest environment on the planet —undersea vents spewin heat and toxi

Inside the worm's hole, heat rises 185F. Outside, where the worm v tures for food, the mercury plummets 36F. "It has got to be one of the har est environments on the planet, w the most severe temperature gradie says Cary. On its back, the worm c

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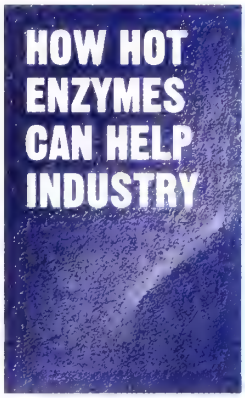


DNA FINGERPRINTS Polymerase chain reaction (PCR), the tool used to identify blood at last year's O.J. Simpson trial, relies on an enzyme secreted by a microbe harvested from hot springs at Yellowstone National Park. Roche uses the enzyme in its diagnostic kits and licenses it to others to sell to research laboratories.

OIL PRODUCTION To extract oil from wells, engineers pump sand, guar gum, and enzymes from heat-loving microbes down the hole, then set off explosions to force the mixture into cracks. The enzymes become active deep inside the hot well, breaking down the gum so that oil trapped in the rock can flow around the grains of sand.

ANIMAL FEED Chicken fee contains a lot of plant phos- phate that the animals can't digest. It winds up in waste and pollutes ground water, just like certain detergents. Enter "acidophiles"— microbes that thrive in sulfu ric hot springs. The enzyme they produce could be adde to feed to help chickens digest the phosphate.

ries a thick fleece of bacteria. The enzymes they secrete, possibly to detoxify surrounding waters, are valuable for their stability at extreme temperatures.

Thus far, the fleece has resisted all efforts to cultivate it in the lab. So to analyze it, Cary is relying on RBI's high-tech wizardry. Bypassing the laborious gene-sequencing steps preferred by top gene companies like Human Genome Sciences Inc., RBI can scoop up a bit of bacterial soup, enzymes and all, and extract "naked" nucleic acid. The next step is to break the chains into short pieces containing just a few genes and stick them into hosts such as *E. coli*. High-speed robotic screens then determine if the host produces the desired enzyme, thus leading scientists to the responsible genes. The test doesn't give any hints about the identity or behavior of the organism that the enzyme came from. But RBI's customers don't care—they just want the enzymes.

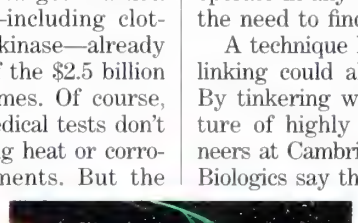
While RBI isn't the only company targeting extremophiles—Switzerland's Roche Holdings, Denmark's Novo Nordisk, and others are hot on the trail—none has shown the same skill in tapping the world's scientific brain trust. After just 15 months in business, the company expects to break even on $5 million in revenues this year.

RBI's scientific connections explain its rapid launch. The reputation of one of its founders, Human Genome Sciences Chairman and CEO William A. Haseltine, helped attract $10 million from venture capitalists. Other scientists flocked to the startup thanks to the involvement of a second founder, Karl O. Stetter of Germany's University of Regensburg, a top expert in extremophiles.

RBI anticipates applications for its new enzymes across a sweep of industries, from agriculture to oil production (table). Searching for an enzyme that could help extract petroleum from deep in the earth, North Carolina State University chemical-engineering professor Robert M. Kelly, an RBI adviser, turned to an enzyme from a microbe that functions at temperatures up to 248F—above the boiling point of water. He and RBI are talking with several oil field service companies that want to license the technology.

Medicine is another target market. Therapeutic enzymes—including clot-busters such as streptokinase—already account for roughly half the $2.5 billion world market for enzymes. Of course, drugs and routine biomedical tests don't need to function in raging heat or corrosive chemical environments. But the high stability of enzymes from extremophiles could lead to improved versions of enzyme-based therapies.

QUICK STUDY. Such hopes have helped RBI land some big partners, including chemical and equipment giant Hercules Inc. David A. Simpson, Hercules' director of new-technology initiatives, hopes a collaboration with RBI may lead to new techniques for cleaning up industrial pollution, for example. Because 99.9% of all microbial life remains unexplored, Simpson anticipates plenty of startling and useful discoveries.



HARDY HITCHHIKERS
The fleece of bacteria riding the back of a Pompeii worm may be just what the critter needs for detoxification

To tailor enzymes for industry, RBI turned to California Institute of Technology chemical engineering professor Frances H. Arnold. Brought on as a consultant, she tutored RBI's engineers in a technique for mutating specific bits of DNA to produce desired characteristics—a method RBI's Marrs calls "directed evolution." By forcing DNA that codes for a high-temperature enzyme through repeated, rapid mutations, each time selecting offspring that can function in slightly cooler environments, RBI can create enzymes that are active at room temperatures but have the stability of proteins from extremophiles.

In this very technology, though, s see a threat to RBI's long-term age The principles of directed evolution well-understood by other scientists engineers. Taken to its logical extre the approach could create enzymes operate in any environment and obv the need to find new extremophiles

A technique known as chemical cr linking could also rival RBI's appro By tinkering with the crystalline st ture of highly purified enzymes, e neers at Cambridge (Mass.) startup A Biologics say they have bestowed st ity on molecules sim to those of natural zymes from extr settings.

Even if its appr does win out, RBI w have the field to it Scientists at Ro point out that the commercial enzyme lated from an extre phile is Taq poly rase—a molecule t helps amplify tr quantities of DNA. T molecule became basis of a major sc tific tool called polymerase chain r tion, which is used, among other thi for DNA "fingerprinting." Roche o the rights to this enzyme and is exp ing other useful proteins isolated f extremophiles.

Nonetheless, RBI's stable of peripa ic academic collaborators gives it edge. Their message: Keep explor After two years scrutinizing the st ture of high-temperature enzymes, adviser Michael W. W. Adams, a Uni sity of Georgia biochemist, concludes there are no effective shortcuts to fin them in nature. "If you want highly ble enzymes, you must go to the treme environments," he says. Natu bounty, it seems, abides in its bl smokers, steam vents, and salt lakes

By Neil Gross in New Y

ED BY PETER COY

AIN AND BRAWN A SINGLE CHIP

E THE SCARECROW IN *Wizard of Oz*, micro-
chines want a brain.
rent microelectrome-
nical (MEM) systems
uire two chips—one
functions as an ultra-
nsy motor, gear, or
sor and another for
circuits to control it.
t's true even though
same techniques are
d to make both the
hine and the brain.
Engineers at the Ener-
Dept.'s Sandia Nation-
Laboratories in New
xico have found a way
out brawn and brain
one chip. According to
erts at Analog Devices
and the University of
ifornia at Berkeley, the
akthrough heralds all
nner of smart MEM
s in medicine, commu-
tions, computers, and
tary hardware.
Heat is the hang-up in
bining microcircuits
mechanical parts on a
gle silicon wafer. The
chines must be tem-
ed by heating them to
und 900C—which
ts any existing cir-
s. But if the machines
made first, the surface
he silicon wafer ends
too hilly to "print"
trol-circuit lines—it's
writing on sandpaper.
a Sandia team headed
Paul J. McWhorter de-
oped a way to etch
romachines at the bot-
of trenches, then fill
he trenches with sili-
dioxide to make the
fer's surface smooth
in. After the circuitry
ormed around the
nches, the silicon diox-
is removed so the tiny
rs can turn. *Otis Port*

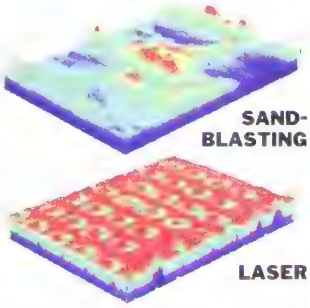
SHOCK ABSORBERS FOR IN-LINE SKATES

AFTER A FEW BUMPY HOURS in a pair of in-line skates, even seasoned athletes sometimes complain of leg pains. To the rescue comes Pavel Belogour, a Northeastern University economics student, who just received a patent on spring-like shock absorbers that go beneath the heel.

Belogour, 25, a native of Belarus who won a gold medal in rowing with a Soviet junior team in the 1988 world championships, says the idea for shocks occurred to him while he was skating in New York's Central Park shortly after he immigrated to the U. S. in 1991. Belogour says he built his prototype from parts found in a hardware store. It's on loan, he says, to a "major producer" of in-line skates, and Belogour is fielding queries from several other manufacturers as well. *Neil Gross*

ZAPPING STEEL TO FIGHT FRICTION

BENDING AND STRETCHING cold-rolled steel to make parts can rupture the metal—and the die as well. To lessen friction, some processors run the strips through a roller roughened by grinding or sandblasting. That gives the strips a matte surface that retains lubricant. Cold Metal Products Inc. of Youngstown, Ohio, roughens the rollers more uniformly by making millions of tiny craters with a laser. The technique, from Belgium's Metallurgical Research Center, is used in Europe and Japan. Cold Metal hopes to make it catch on in the U. S. □



MALE INFERTILITY: OF MICE AND MEN

A GENE DUBBED THE "DESERT HEDGEHOG" PLAYS A CENTRAL role in male fertility. The gene causes bristles to grow on fruit flies, making them look like hedgehogs under a microscope. But Harvard University scientists have discovered that the mouse version of it is a key regulator of sperm production. In mice that lack the gene, males have no mature sperm.

Scientists at Ontogeny Inc. in Cambridge, Mass., are trying to determine whether the gene is expressed the same way in humans. If so, they hope that injections of the protein produced by the gene could aid infertile men, says Thomas Ingolia, Ontogeny's research vice-president. He says the hedgehog gene protein appears to work somewhat like erythropoietin, a substance that boosts red blood cell levels. Both trigger the conversion of precursor cells into mature cells. Ontogeny hopes to determine in the next year whether the hedgehog gene protein is relevant to humans. If so, the company plans to begin clinical trials on a drug candidate the following year. *Geoffrey Smith*

CAN PHONE LINES CATCH UP TO CABLE?

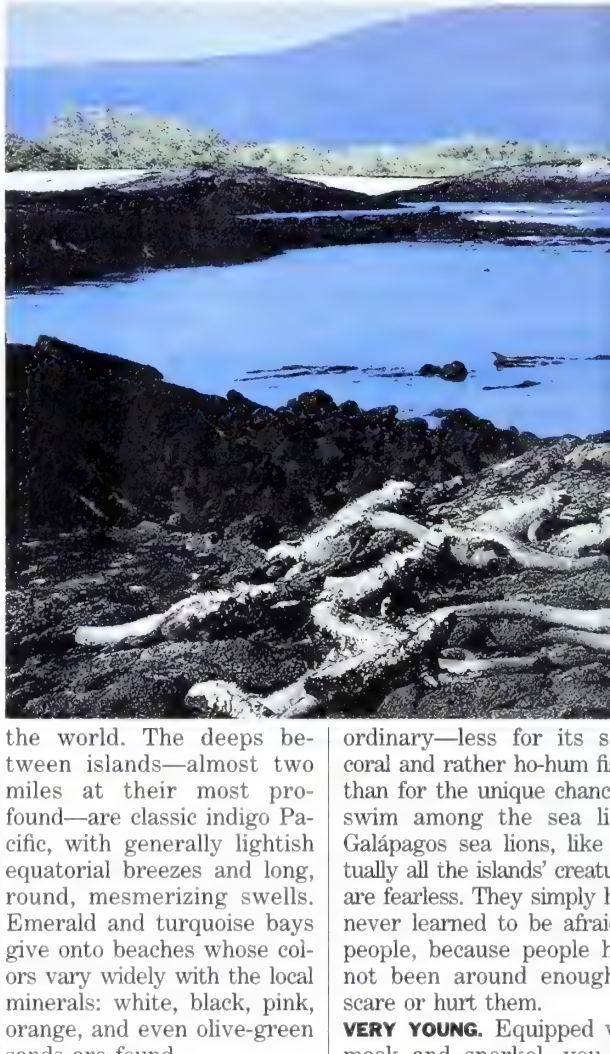
THE PLANNED UNVEILING THIS year of ultrafast cable modems has phone companies quaking: Could cable television supplant the phone network as the pathway to the Internet? At 128 kilobits per second, the phone companies' integrated services digital network (ISDN) is a fraction of the speed of cable modems. A faster phone standard, ADSL, for asymmetric digital subscriber line, is more expensive than cable modems but still slower than they are.

The phone companies, though, have one more trick up their sleeves. Canada's Northern Telecom Ltd. is working with some of them on a new digital format. John B. Bourne, assistant vice-president for broadband access in Ottawa, says the format is cheaper than ADSL but about as fast and should be deployed sooner—by early 1997. It can receive data at 2 megabits per second and send it at 500 kilobits per second, he says. While the receiving speed is less than the 10-megabits-and-up rates of cable modems, the "upstream" speed may actually be higher in real-world conditions than cable modems' roughly 800-kilobit speed, says Bourne. His conclusion: "The telcos are in a stronger position than many would believe." □

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwapr@businessweek.com

EDITED BY AMY DUNKIN

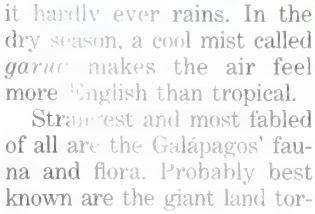
EVOLUTION'S LAB-WHILE IT LASTS



A traveler's rule of thumb: Visit the most fragile places first. The Galápagos Islands, which straddle the equator some 600 miles off the Pacific coast of South America, are a case in point. The remoteness that has made this volcanic archipelago a vibrant laboratory of evolutionary development no longer can shield it from the shocks of the outside world. Such pressures threaten to engender more change in the next decade than would have occurred by natural processes in a million years. But more about that later.

TRAVELOG
Sailing the Galápagos

The Galápagos have long been hailed as one of the weirdest and most marvelous places in the world. Cracked and jagged lava presents a landscape that seems more lunar than earthly. The chilly Humboldt Current, which sweeps up from Antarctica, creates a paradoxical climate. On the equator, you need a wet suit for swimming, and



in the so-called wet season, it hardly ever rains. In the dry season, a cool mist called *garua* makes the air feel more English than tropical.

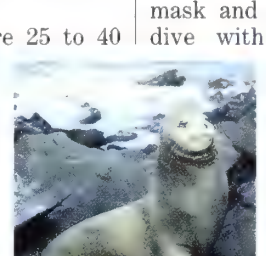
Strangest and most fabled of all are the Galápagos' fauna and flora. Probably best known are the giant land tortoises, which may weigh up to 600 pounds and live a century and a half. It is from these creatures that the island chain gets its name, although *galápago*, in Spanish, means not tortoise (*tortuga*) but saddle, a reference to the shape of their shells.

Marine iguanas—the world's only seagoing lizards—swim the shallows, nibbling algae off of rocks. Galápagos penguins, some 5,000 miles from the iceberg-dotted haunts of their Patagonian cousins, cruise equatorial reefs for fish, while flightless cormorants, using their vestigial wings like fins, dive along the rocky coasts. Huge colonies of blue-footed boobies lay their eggs on the bare ground, their territories delineated by neat rings of guano.

CRITTER-WATCHING. All these creatures are fascinating, yet in terms of scientific import the place of honor must go to the islands' 13 species of finch—known as Darwin's finches and surely the most studied avians anywhere. It was the small but crucial differences among these birds that more than anything else led Charles Darwin—who visited aboard the Beagle in 1835—to formulate his theory of evolution by natural selection.

As the Galápagos inspired Darwin, so they continue to enchant amateur nature buffs today—especially those for whom the joy of critter-watching is combined with a love of being aboard a boat. The archipelago sprawls across some of the most pristine and gorgeous waters in the world. The deeps between islands—almost two miles at their most profound—are classic indigo Pacific, with generally lightish equatorial breezes and long, round, mesmerizing swells. Emerald and turquoise bays give onto beaches whose colors vary widely with the local minerals: white, black, pink, orange, and even olive-green sands are found.

The islands are 25 to 40 miles apart, making for typical sails of three to five hours. On our boat—the swift and cushily appointed 93-foot trimaran, Lammer Law—this allowed time for meals, sunning, reading, and plenty of napping to stay fresh for the next island trek or round of snorkeling. (An 11-day itinerary, featuring 7 days aboard the 18-passenger Lammer Law and hotel and sightseeing in Quito, Ecuador, can be booked through Abercrombie & Kent for $3,295 a person, excluding airfare. U.S. travel agents can reserve less posh boats for about $1,200 a week; in Quito, you can secure passage for roughly $100 a day.)



The snorkeling was extraordinary—less for its s
coral and rather ho-hum fi
than for the unique chanc
swim among the sea li
Galápagos sea lions, like
tually all the islands' creatu
are fearless. They simply h
never learned to be afrai
people, because people h
not been around enough
scare or hurt them.

VERY YOUNG. Equipped w
mask and snorkel, you
dive with these beaut
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The Galápa
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young islands, the first
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than 10 million years a
Like all volcanic islands, t
began as lifeless, steam
hulks and were coloni
with exquisite gradualn
thanks to a series of a
dents so unlikely that so
would call them miracle
plant seed, awash in salt
ter for months or yea
landed on shore and spro
ed in a crumble of lava

land bird, blown 600 oceanward in a storm, d another of its kind, managed to mate and ve. In between these invasions, species plenty of time to st, adapt, and e into their surdings, so that Galápagos boast nighest proporof endemic es in the world. t the earth has en smaller, and Galápagos are g encroaching threats. risingly, tourism seems e the least insidious of problems. While the ber of visitors to the pagos has risen steeply ecent years, the annual e is still a very modest 0 (although a planned rt on one of the larger ds that would allow di- flights from North rica could someday e that number look nt). So far, Galápagos sts tend to be very prove of the environment. eover, the Ecuadoran onal Park Service places rules on where visitors and cannot go and res that all groups be acpanied by a guide. Ours, gist Scott Henderson, ed that "tourism, if carried on with an awareness of the big picture, can be the best thing for the islands, because it will out-compete other economic activities that are far more destructive."

FANTASTIC VOYAGE TO A NATURALIST'S PARADISE

Species peculiar to the islands include marine iguanas, lightfoot crabs, blue-footed boobies, and giant land tortoises that weigh up to 600 pounds and live a century and a half–not to mention the famous finches that inspired Charles Darwin's revolutionary theory

Most dangerous among those other activities is commercial fishing. In recent years, Asian fish brokers have appeared in the Galápagos in search of certain delicacies—mainly sea cucumbers and shark fins—whose stocks have been decimated in the western Pacific. The result has been an economic boom for a relatively small cadre of Galápagos fishermen—and an impending calamity for the islands. Sea cucumbers, humble bottom-dwellers though they are, are an important element in the marine food web, and the enormous shark-fishing nets also entrap and kill dolphins, green turtles, and sea lions.

When Ecuadoran authorities tried to limit these fisheries, the response was an uprising that propelled the Galápagos off the travel or science pages and into the dubious spotlight of world events. Last September, local fishermen seized the airport, occupied the Charles Darwin Research Center, and threatened to kill the giant tortoises.

The event suggests just how difficult it will be to reconcile various interests. Any Ecuadoran is free to settle in the Galápagos (although only 3% of the land area is outside the National Park and open for settlement); average incomes from fishing are more than double those on the mainland. Environmentalists complain that new Ecuadoran arrivals are cashing in on and destroying resources. Locals tell foreign do-gooders to go back to their own rich, polluted countries and let them earn a living.

POLITICAL CURRENTS. Nearly a dozen international organizations, including the U. N., the Nature Conservancy, and the Inter-American Development Bank of the European Community, are funding Galápagos conservation efforts. Yet there's no denying that the archipelago's fate will have mainly to do with political and economic currents within Ecuador itself.

What's the prognosis? It is clear that even if the degradation of the Galápagos can be stopped, these remote, untamed islands will never be more splendid than they are right now. So hedge your bets. Go soon. *Laurence Shames*

SEEING THE WORLD FROM A SADDLE

He was my constant companion in the desert–tall, brown, and handsome. He weighed about half a ton—definitely the strong, silent type. Navajo was his name. His occupation: horse.

I know very little about him except that he didn't complain as we rode up and down canyon walls and through about 150 miles of breathtaking Southwestern scenery. It was some of the greatest fun I've had on a vacation, even though the conditions were rugged and sanitation was strictly...well, I wound up smelling a bit like my four-hoofed friend.

TRAVELOG
Riding the Reservation

"BURNING DAYLIGHT." I was on a weeklong journey through the Navajo reservation in northeastern Arizona under the auspices of Equitour, a Wyoming-based travel agency that specializes in horseback vacations (307 455-3363). This $1,100 excursion was a trip through parts of the reservation rarely seen by tourists. And it lived up to its billing in spades.

After making my way by dinky propeller plane from Phoenix to Page, Ariz., to meet the group, we went by truck to Canyon de Chelly, far smaller than the Grand Canyon but rivaling it for sheer beauty. We proceeded through Monument Valley and ended up on the northern shores of Lake Powell. There were six paying riders plus Mel Heaton, a taciturn Arizonan who was our tour leader, and an occasional Navajo guide. Soft-spoken and patient, Mel was a perfect trail boss for us urban cowboys.

The other riders, including myself, were weekend equestrians of no great skill. But not all that much prowess was required. Far more important was experience riding over rough territory and proper gear, particularly regarding the lower extremities. It was not an especially fast ride—for the most part, we plodded along at a walk. Mel allowed us to dash off on occasional lopes. For me, however, the charm of carefree galloping wore off after a week.

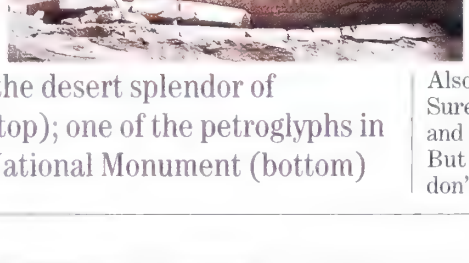
Like the other horses, my quiet friend Navajo was astonishingly surefooted, and none of us had a mishap. For the first time, I found myself in total charge of a horse—grooming, bridling, and saddling him every morning. On a typical day, we would rise at about 7 a.m.—"We're burning daylight," Mel would say—and eat a breakfast prepared by a crew of support people who paralleled our trip by truck, carrying our luggage and tents. (O.K., this was not exactly pioneer-style.) We would then ride for three or so hours in the morning, then another three hours in the afternoon. By trip's end, I had earned my merit badge in tent-erection—and outdoor sanitation. My childhood cavalry fantasies were dashed. What did Ge Armstrong Custer do v out Baby Wipes?

The scenery was spect lar. We rode through about every major par the magnificent Canyo Chelly in two days, ex ing ruins not seen tourists. We then v trucked to a bleak spo mid-desert called Dinne so and from there rode c Monument Valley. Our proach, from the south, us vistas usually witne only by Navajo herders.

ROUGHING IT. Not all of experiences were ter however. I loved Monu Valley, Canyon de Chelly, the adjacent Canyon Muerto. But none of thought Navajo Moun was all that scenic. I'd preferred if we could gone a bit further to o the nearby national park Utah. Also, the tour lit ture's promise of "port shower and toilet facili for a "comfortable cam experience" proved not t ly correct (two shower one week and three ni without facilities). Some vance warning would been nice.

Don't get me wr though—in my view, the no better way of seeing desert Southwest. Equi sponsors other trips thro out the world—treks in Sahara, things like that does its chief competitor, Equestrian (800 666-3 You can also contact h trip outfitters. One sourcebook is *Fromm Horseback Adventures* Dan Aadland ($14.95; Ma lan General Reference).

I plan to stick Mel Heaton, who Honeymoon Trail C his hometown of casin, Ariz. (520 7292). His horses great, and Mel was laxed and informat Also, I kind of miss Na Sure, he was a bit potbel and his saddle tended to But we all have our fl don't we? *Gary W*



HAPPY TRAILS

A few of the author's fellow travelers overlook the desert splendor of Monument Valley (top); one of the petroglyphs in Canyon de Chelly National Monument (bottom)

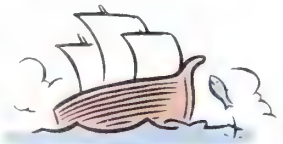
WEEK
FORE THE MAST

y quickly knew for the landlubber s: Five minutes of ring the deck with ew member, and all I ed to know was: "So e do I plug in my hair ?" No electrical out- on this tub, mate. You dry hair, let the Maine es do it for you.

was my first six-day trip d the windjammer An- ie, a 130-foot ketch that Maine's Penobscot Bay surrounding waters in - and six-day cruises May to October. She's of a dozen or so such g vessels in the area. the Maine Windjammer , 800 807-WIND.)

e docks in the upper r in postcard-pretty den, Me., which hasn't ged much since the e *Peyton Place* was there 40 years ago. For nday-to-Saturday excur- it's a good idea to ar- Sunday evening welcome-aboard to meet your and fellow pas- rs. There will be 30 of the latter, ogetherness is idable. You're to stay aboard, ou might prefer y a nearby inn last taste of ure comforts. the Rockport- den-Lincolnville ber of Com- e, 207 236-4404.)

LE CREAK. The lique sets sail the morning tide the arrival of McHenry, the in who bought 1986. Other lo- ammers may be r (the Victory es has three masts and sleeps 44) or older (the Lewis R. French dates to 1871), but the 16-year-old Angelique is one of the luxury liners of this fleet. Which is to say there's a cozy deck house and real shower stalls, and the "heads"—never say bathrooms—don't break down too often. The two-person cabins are pleasant, with sinks and reading lamps, but a bit cramped if you're lanky.



TRAVELOG
Jammin' off Maine

Don't expect the QE2: This is more of a summer-camp-at-sea for grownups. Not that you can't relax. There's nothing like clambering atop the deckhouse and sunbathing as the mast gently creaks and the coastline and islands rock by. At some point, you will be pressed into service. The crew, mainly seastruck college kids, do most of the dirtier chores, like polishing the brass and, oh yes, cleaning the heads. But volunteers are needed at steady intervals to furl and unfurl the sails, assist in tacking, or coil the ropes.

Such tasks further the camaraderie and help keep prices down: Three-day cruises run $405 in peak season, and six-day excursions max out at $695. (All meals are included, but B.Y.O.B.) Think of it as two parts vacation to one part unaccredited sailing school. Indeed, an inquisitive passenger is Captain Mike's favorite kind, and he's always delighted to show you how to read a chart or plot a course. He may even let you grab the wheel.

SEASTRUCK

The 130-foot ketch Angelique under full sail in Maine's East Penobscot Bay (below); the author relaxes topside between dinner bells and calls to hoist sail (inset)

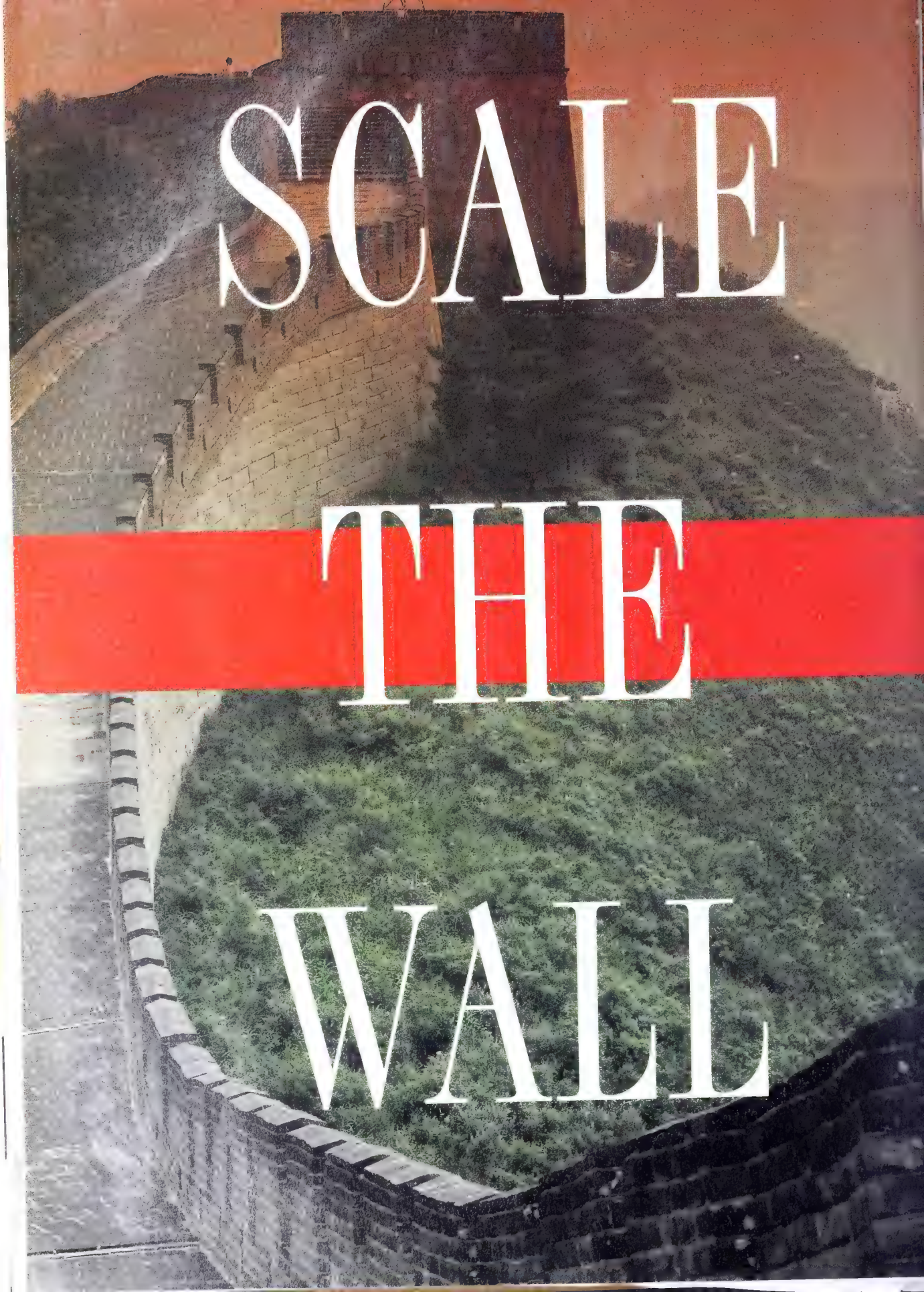
Most days, though, are best spent perched on deck with a coffee cup and a beach novel that somehow never gets read. You're too distracted by the Down East beauty, a heady mix of civilization—the coastal mansions are eye-popping—and wilderness. It's a bird-watcher's paradise, with ospreys, herons, and eagles soaring above the pines. Below, seals sun themselves on the rocks, and if you're lucky, you may spot a whale. Bring binoculars.

FAMILY STYLE. Maine weather is famously changeable: If you don't like it, the local bromide goes, stick around for 10 minutes. True storms at sea are unusual, though.

When the anchor drops an hour or two before twilight, usually in a cove near an island or village, you can row ashore and explore. Bug spray is a must: Maine mosquitoes bite you bloody. Still, land jaunts bring unexpected rewards. Once, I rounded the bend of a beach and came up smack against a family of water buffalo. They're not native to the region, but some rich families raise them.

The food is served family style, plain and good and voluminous: chowders, stews, and the occasional lasagna. Debbie Seip, galley chef since 1987, is justly famous for her "congo bars," a guilt-inducing chocolate-chip-and-butter confection. Another highlight: Midweek, we row ashore to a beach and build a driftwood fire for a lobster bake.

This is a lights-out-early operation, and the passengers generally climb below deck around 10, knowing the breakfast bell will clang at 7. For me, the best time is night, when the buoys bong and the fireflies spark and the waves lap against the hull. Did I mention the starscapes? Bright and dim stars, falling and shooting stars, cascades of constellations. In Brooklyn, we only dream about skies like this. *Marc Miller*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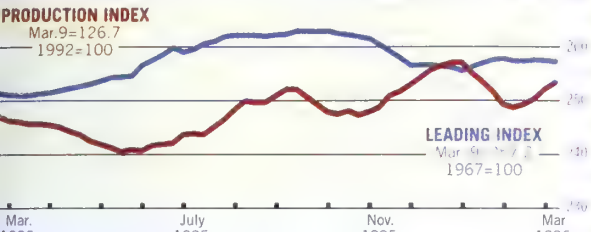
ODUCTION AND LEADING INDEXES

nange from last week: 0.5%
nange from last year: 2.9%

Change from last week: -0.1%
Change from last year: 2.9%



dexes are 4-week moving averages

production index increased during the week ended Mar. 9. Before ulation of the four-week moving average, the index fell to 126.7, from .1. Seasonally adjusted auto and truck output declined sharply because ne strike at General Motors Corp.

leading index fell slightly in the latest week, but the unaveraged index eased to 257.2, from 256.5.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/16) thous. of net tons	2,042	2,101#	-1.5
AUTOS (3/16) units	77,849	115,294r#	-44.4
TRUCKS (3/16) units	99,162	128,013r#	-17.2
ELECTRIC POWER (3/16) millions of kilowatt-hrs.	59,338	62,056#	9.1
CRUDE-OIL REFINING (3/16) thous. of bbl./day	13,677	13,647#	2.1
COAL (3/9) thous. of net tons	21,102#	21,615	4.3
PAPERBOARD (3/9) thous. of tons	NA#	NA	NA
PAPER (3/9) thous. of tons	NA#	NA	NA
LUMBER (3/9) millions of ft.	448.3#	440.1	-1.0
RAIL FREIGHT (3/9) billions of ton-miles	25.3#	25.9	4.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (3/15) S&P 500	639.59	649.15	29.7
PORATE BOND YIELD, Aaa (3/15)	7.42%	7.21%	-7.7
USTRIAL MATERIALS PRICES (3/15)	108.6	108.8	-4.8
INESS FAILURES (3/8)	NA	326	NA
L ESTATE LOANS (3/6) billions	$508.7	$505.1r	8.7
IEY SUPPLY, M2 (3/4) billions	$3,647.9	$3,662.6r	1.8
IAL CLAIMS, UNEMPLOYMENT (3/2) thous.	363	358r	7.4

rces: Center for International Business Cycle Research (CIBCR), Standard & s, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/20) $/troy oz.	394.900	396.500	3.2
STEEL SCRAP (3/19) #1 heavy, $/ton	139.00	139.00	1.1
COPPER (3/16) ¢/lb.	123.1	122.2	-14.3
ALUMINUM (3/16) ¢/lb	76.0	75.3	-14.1
COTTON (3/16) strict low middling 1-1/16 in., ¢/lb.	80.61	79.85	-25.8
OIL (3/19) $/bbl.	24.34	20.46	32.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

FEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (3/19)	5.20%	5.25%	5.97%
IMERCIAL PAPER (3/20) 3-month	5.36	5.34	6.14
TIFICATES OF DEPOSIT (3/20) 3-month	5.33	5.30	6.12
ED MORTGAGE (3/15) 30-year	8.06	7.63	8.62
USTABLE MORTGAGE (3/15) one-year	5.82	5.48	6.55
ME (3/20)	8.25	8.25	9.00

rces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/20)	106.44	105.34	88.35
GERMAN MARK (3/20)	1.47	1.47	1.41
BRITISH POUND (3/20)	1.54	1.52	1.60
FRENCH FRANC (3/20)	5.05	5.04	4.97
ITALIAN LIRA (3/20)	1556.5	1564.8	1725.0
CANADIAN DOLLAR (3/20)	1.36	1.37	1.40
MEXICAN PESO (3/20)	7.528	7.590	6.920

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

TING HOME SALES

day, Mar. 25, 8:45 a.m.EST ▶ Existing es probably sold at an annual rate of million in February, roughly the same as in January. Prior to February, es had fallen for four consecutive hs.

SUMER CONFIDENCE

day, Mar. 26, 10 a.m.EST ▶ The Confer- Board's index of consumer confidence edged up to 98.8 in March, says the an forecast of economists surveyed by nternational, one of The McGraw-Hill panies. Confidence rebounded in Febru- o 97, after slipping to 88.4 in January. the assessment of current economic conditions and the expectations component bounced back in February.

DURABLE GOODS ORDERS

Wednesday, Mar. 27, 8:30 a.m.EST ▶ New orders were likely little changed in February, after a 3.1% advance in December and a 0.2% rise in January. Because the weather prevented companies from shipping goods in January, the backlog of unfilled orders shot up by 1.7% in January. That likely fell back in February.

INTERNATIONAL TRADE

Friday, Mar. 29, 8:30 a.m.EST ▶ The MMS median forecast expects that the trade deficit of goods and services widened to about $7.3 billion in January, from just $6.8 billion in December. Exports, which rose 1.1% in December, were probably little changed, but imports, also up 1.1%, continued to rise in January, in part because of increased oil imports.

NEW HOME SALES

Friday, Mar. 29, 10 a.m.EST ▶ New single-family homes probably sold at an annual rate of 678,000 in February, down sharply from the 693,000 pace of January. The 4.2% gain in January sales was largely unexpected, given that month's harsh weather. With fixed mortgage rates near 8% once again, sales should slow during the important spring season.

PICK A MULTIVENDOR ENVIRONMENT IN COMPANIES LIKE THESE ›

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HEWLETT PACKARD

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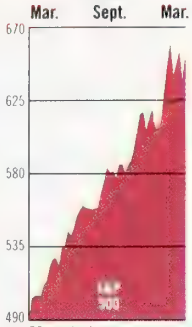
vestment Figures of the Week

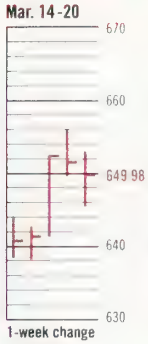
ENTARY

conomic forecasts sent the rming into record territory. A int sprint on Mar. 18 brought to 5863, its eighteenth n just 54 trading days. After vith 5700, the Dow was own by tobacco and computer nd closed the week at 5655. ile, the bond market got the om a report of stronger in- production. Fears that growth would forestall eas- he Federal Reserve sent the Treasury bond's yield to n Mar. 15. But by Mar. 20, l was down to 6.63%.

STOCKS

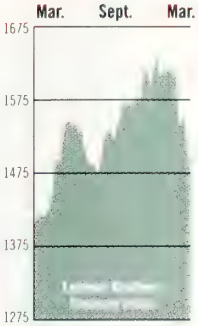


52-week change
+31.1%

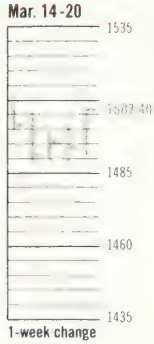


1-week change
+1.8%

BONDS

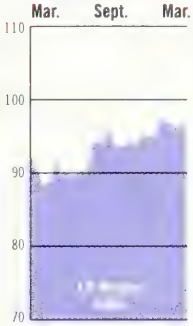


52-week change
+7.3%

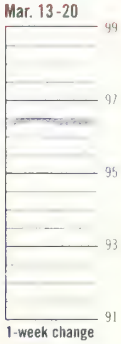


1-week change
+0.4%

THE DOLLAR



52-week change
+4.7%



1-week change
0.0%

RKET ANALYSIS

TOCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	5655.4	1.6	38.5
E COMPANIES (S&P MidCap Index)	230.3	1.3	28.1
COMPANIES (Russell 2000)	328.3	1.5	27.9
MPANIES (Russell 3000)	370.6	1.7	31.3

GN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3685.4	1.2	17.4
NIKKEI INDEX)	20,442.6	3.6	28.5
0 (TSE COMPOSITE)	4961.3	0.3	16.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.14%	5.12%	5.85%
30-YEAR TREASURY BOND YIELD	6.63%	6.68%	7.45%
S&P 500 DIVIDEND YIELD	2.16%	2.19%	2.65%
S&P 500 PRICE/EARNINGS RATIO	19.0	18.6	16.5

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	592.4	589.6	Positive
Stocks above 200-day moving average	67.0%	63.0%	Neutral
Speculative sentiment: Put/call ratio	0.62	0.77	Neutral
Insider sentiment: Vickers sell/buy ratio	2.13	2.00	Neutral

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
CIALTY APPAREL RETAILERS	17.1	39.0	CHARMING SHOPPES	52.9	–4.9	4 7/8
ES	15.6	53.2	NIKE	18.2	108.5	79 1/2
ERAL MERCHANDISE CHAINS	15.2	12.7	KMART	35.1	–19.8	9 5/8
MINUM	12.4	47.9	REYNOLDS METALS	20.2	28.7	61 1/8
ARTMENT STORES	12.0	31.6	MERCANTILE STORES	19.2	41.9	58 7/8

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
UFACTURED HOUSING	–12.1	17.6	FLEETWOOD ENTERPRISES	–12.1	18.0	25 3/8
ACCO	–10.2	30.6	PHILIP MORRIS	–10.6	35.5	86 3/8
GS	–6.7	50.1	MERCK	–9.8	40.9	62
TRIC COMPANIES	–6.6	14.5	UNICOM	–18.5	13.1	28 1/8
ADCASTING	–6.3	25.4	TELE-COMMUNICATIONS	–9.1	19.4	19 7/8

TUAL FUNDS

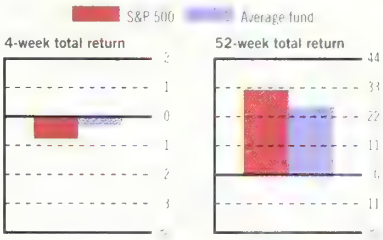
MORNINGSTAR, INC.

RS

eek total return	%
ITREND GOLD	13.7
LITY SELECT RETAILING	11.2
RICAN HERITAGE	10.9
k total return	**%**
AS	77.0
ER CAPITAL APPRECIATION	77.0
ESCO STRATEGIC GOLD	75.3

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-HONG KONG	–8.9
SMITH BARNEY TELECOMM. INCOME	–8.8
GUINNESS FLIGHT CHINA & HONG KONG	–8.6
52-week total return	**%**
STEADMAN TECHNOLOGY GROWTH	–20.4
EV MARATHON GREATER INDIA	–19.5
STEADMAN AMERICAN INDUSTRY	–16.0



LATIVE PORTFOLIOS

TRIMCRAW HILL

amounts represent the t value of $10,000 d one year ago n portfolio

ntages indicate y total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$13,471	$11,893	$11,500	$10,555	$10,152
+2.29%	+2.03%	–0.72%	+0.11%	–0.43%

on this page are as of market close Wednesday, Mar. 20, 1996, unless otherwise in- Industry groups include S&P 500 companies only; performance and share prices are as of market close Mar. 19. Mutual fund returns are as of Mar. 15. Relative portfolios are valued as of Mar. 19. A more detailed explanation of this page is available on request. r=revised

OPPORTUNITY KNOCKS IN ASIA

By rushing to the defense of Taiwan, the Clinton Administration has signaled a major new commitment to maintaining stability in East Asia. But who will pay? And how can America leverage this military role to achieve economic gains in Asia?

It will be a difficult task, but the U.S. can use the newly expanded security umbrella to advance a broader U.S. agenda. It's essential, for instance, to reach a new burden-sharing understanding with Japan. President Clinton is visiting in April and should put this high on his list. Japan pays a hefty percentage of the cost of stationing U.S. troops in Japan—why not a percentage of the cost of safeguarding its sea lanes, some of which have been closed for Chinese military exercises? The Administration should quietly but forcefully also ask other Asian countries to share part of the expense of our military presence.

In the absence of U.S. bases in the Philippines, America should expand on the privileges the U.S. Navy has quietly obtained in Singapore and win more access to Indonesian ports as well. Pressing for new bases may be unrealistic—Vietnam, for example, says it will be a decade before the U.S. is "allowed back" to Cam Ranh Bay. But if these countries want the Seventh Fleet to be around to protect them, there has to be a quid pro quo.

On the commercial front, Americans can't expect dramatic market openings, but they can expect to be at the table when crucial discussions are held about the shape of Southeast Asia's economic future. The fact remains that most Asian nations deny access to many U.S. products and services, while the U.S. market is relatively open to them.

The voice of Malaysian Prime Minister Mahathir Mohammad, the leading prophet of Asia-for-the-Asians-only, has been conspicuously silent in recent weeks. The reason: It's clear that America is vital to the stability and prosperity of Asia. The U.S., which lost credibility in Asia over the past few decades, now has an opportunity to reestablish a broader role. It should be done carefully, with sensitivity to Asian realities, but it's time for America to seek more cooperation in return for safeguarding Pacific prosperity.

IN PRAISE OF STREET WIZARDS

They are the Lords of Wall Street: Julian H. Robertson Jr., the famed stock-picker and head of hedge fund Tiger Management Corp. Mario J. Gabelli, who practically printed m[illegible] during the 1980s takeover boom. Jeffrey N. Vinik, head [illegible] Fidelity Investment's $55 billion Magellan Fund, the w[illegible]'s largest mutual fund. Yet these money managers have [illegible] stumbled in recent years.

Trying to beat the market is an age-old game, yet only a few manage to outperform it consistently over extended periods. For instance, from 1986 to 1995, the Standard & Poor's 500-stock index had a total return of almost 15%, yet only 14% of all diversified equity mutual funds did better. Last year, when the S&P 500 had a total return of nearly 38%, a mere 8% of mutual-fund managers were able to beat the ma[illegible]

What's more, the competition is getting stiffer. [illegible] hedge funds such as Robertson's Tiger were among few willing to bet that stocks would decline. But "s[illegible] selling" is now so familiar in the U.S. that its allu[illegible] fading. For a time, George Soros ruled the arcane wor[illegible] global bond and currency investing. Now the field is cr[illegible]ed, and lush returns are harder to come by. In the g[illegible] capital market, many more savvy money managers [illegible] search analysts, and investors than ever before are se[illegible]ing for scraps of information that will give them an in[illegible]ment edge. That may make life tougher for stock-pic[illegible] but it's better for the economy.

Savvy investors uncover vital information, financial [illegible]kets quickly spread the knowledge, and capital gets allo[illegible] where it's needed. Meanwhile, the bolder money mana[illegible] are forced into frontier markets. For a while, these pio[illegible] earn outsize rewards. Then the process starts again: [illegible] knowledge spreads, more investors join the fray, an[illegible]vestment returns get smaller. Wall Street's wizards [illegible] not always deliver the best returns to their investors. [illegible] they are more than mere gunslingers. It's their risk-ta[illegible] that helps makes it possible for new technologies, new [illegible]nesses, and new markets to develop.

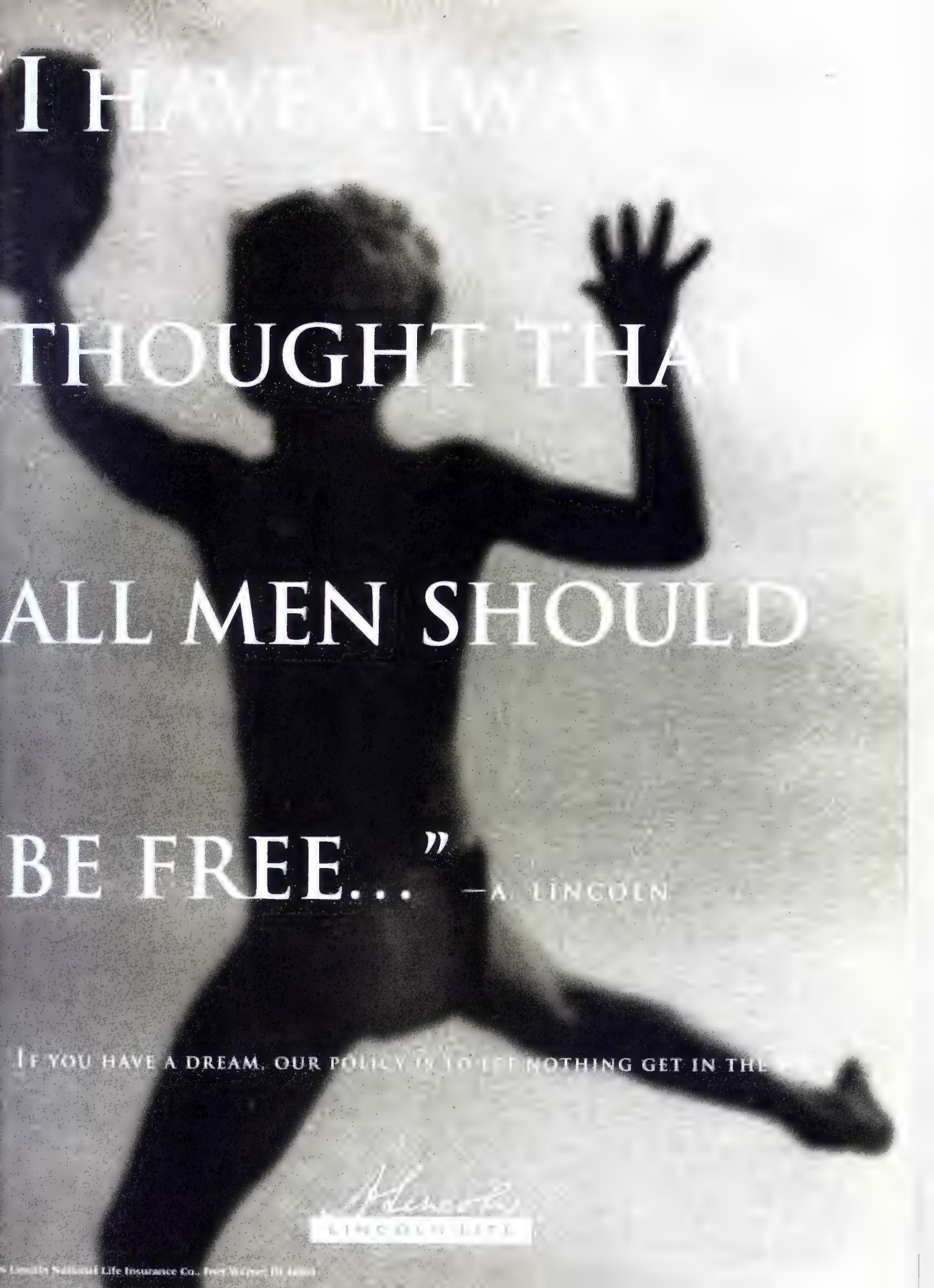
EDUCATION IS BUSINESS' BUSINESS

The education of our children is a topic of perennial con[illegible] and well it should be: Students in the U.S. continue t[illegible]derperform their counterparts in other major industria[illegible]tions. Decades of analysis, political posturing, and searchin[illegible] solutions haven't changed this. The broad and lofty "[illegible] 2000" set forth by the nation's governors and President [illegible] in 1989 and elaborated in legislation two years ago wi[illegible] largely unmet. How is it possible to guarantee, for inst[illegible] that every adult will be literate by the year 2000?

Lately, educators have seized on tough and specific educ[illegible] standards—locally determined—as the route to academi[illegible]cellence. Now the nation's governors will meet on Mar. 26-[illegible] promote the adoption of standards and the diffusion of [illegible]nology in the schools. Each governor will be accompanie[illegible] the chief executive of a major corporation from his or[illegible] state. IBM, for instance, is a prime mover behind the mee[illegible]

The business connection makes sense. However cras[illegible] notion, a good public education should prepare childre[illegible] make a good living. There's a yawning earnings gap [illegible]tween high school graduates and college graduates, [illegible] businesspeople have complained for years that many [illegible] school graduates are in need of remedial education. Busi[illegible] can make a difference. Here's how.

First, executives should actively help educators and [illegible] officials come up with clear and rigorous standards o[illegible]cellence. If students don't know what's required of t[illegible] they won't be able to reach higher. Second, execut[illegible] should work hard to deflect opposition from political [illegible]tremists to the adoption of standards. Third, execut[illegible] should compel school districts and states to reach for [illegible]cellence by linking performance measures to hiring [illegible]sions. Finally, companies should put their money w[illegible] their mouths are—and help finance reforms, the adoptio[illegible] technology, and teacher training through grants, prod[illegible] and volunteer work.



Lincoln National Life Insurance Co., Fort Wayne, Indiana

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UTUAL FUNDS TOP PERFORMERS HEALTH CARE OVER QUALITY

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BusinessWeek

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TELECOM'S NEW AGE

Deregulation and digital technology are creating a new trillion-dollar industry. Who wins? Who loses?

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SPECIAL REPORT

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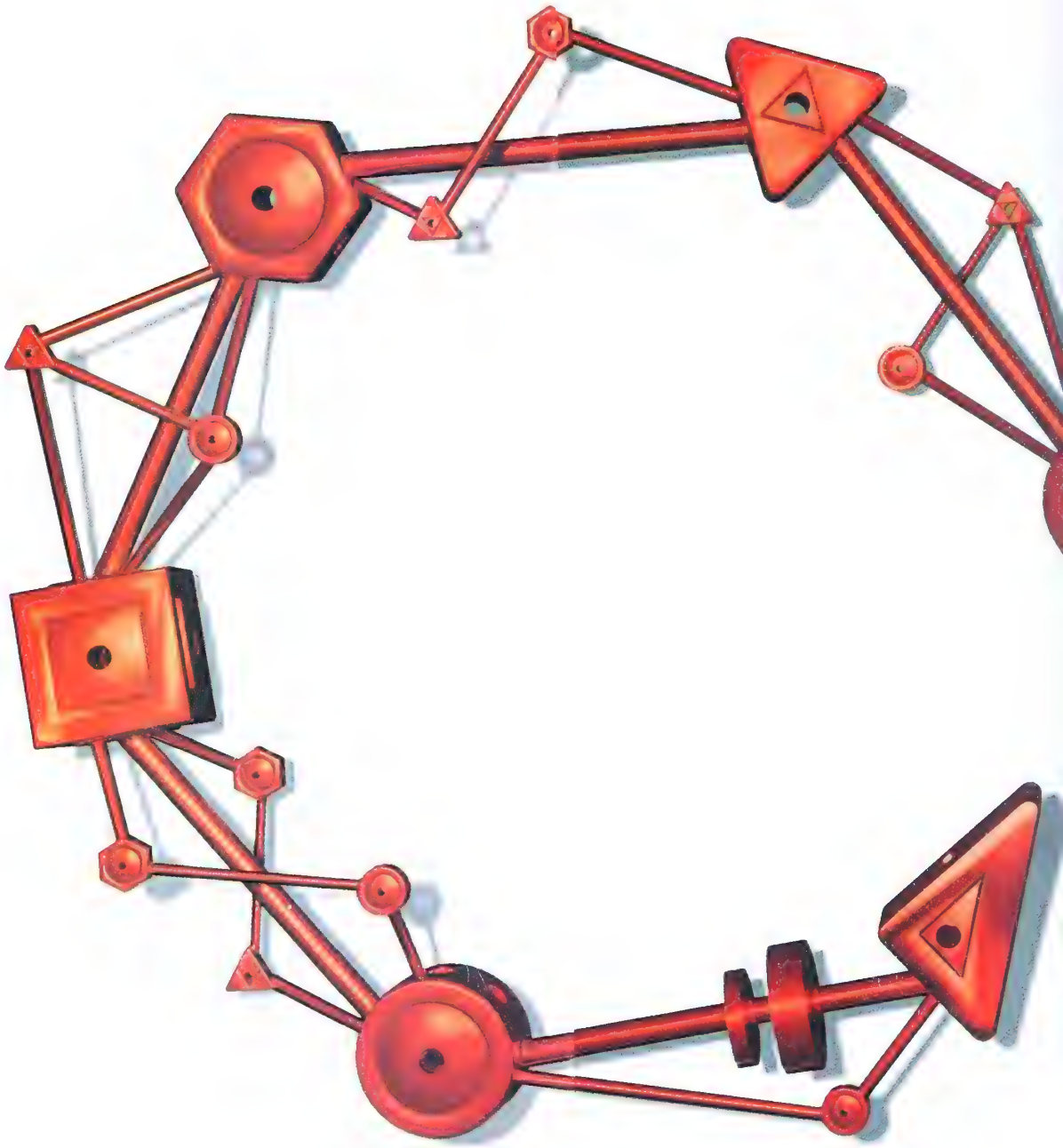
HOW TO MAKE MULTIMEDIA CONNECTIONS CHILD'S PLAY.



If you're confused about which way to turn on the information superhighway, maybe we can help. Multimedia is the sum of many parts, and we've had a part in most of them. Our data storage and imaging systems take on graphics-intense applications from home computers to Hollywood special effects. We're bringing multimedia to networking applications with our new family of ATM chips. Services like video-on-demand and long-distance learning are brought to you through our ATM switching systems. Our scalable parallel supercomputers help visualize processes too complex for eyes to see. So if you're looking for direction on the information highway, look for us. You'll find us at every turn. We're a $30 billion company with a worldwide multimedia investment. We can help you make getting up to speed, child's play.

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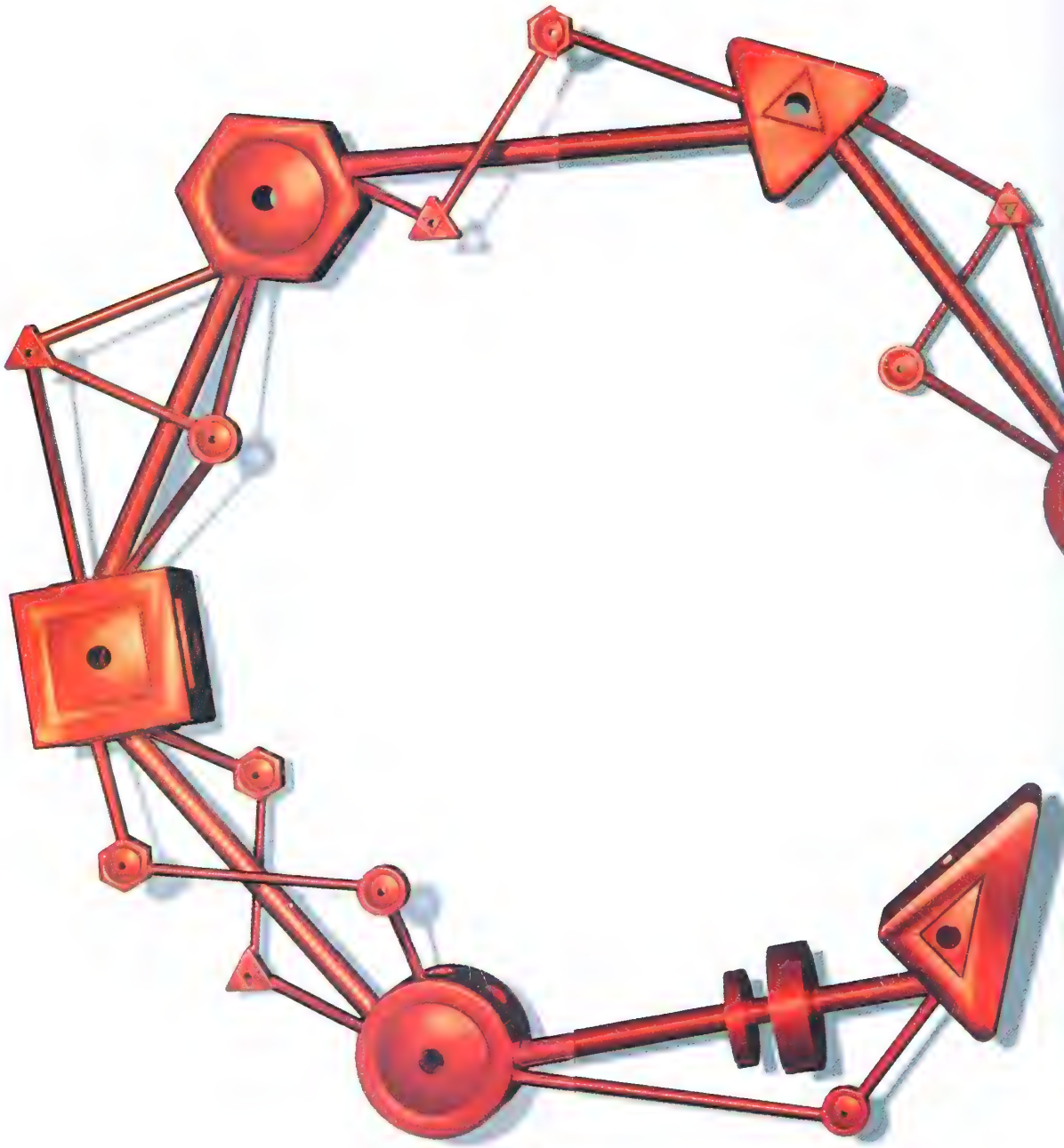
COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

HOW TO MAKE MULTIMEDIA CONNECTIONS CHILD'S PLAY.



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COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

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We took what made the 7-Series such a huge success last year and magnified it. With its new 4.4-liter V-8, expansive interior and standard All Season Traction, it has more power and legroom than the Mercedes S420, Lexus LS 400 and Jaguar XJ6. The 1996 740iL. THE ULTIMATE DRIVING MACHINE.®

BMW

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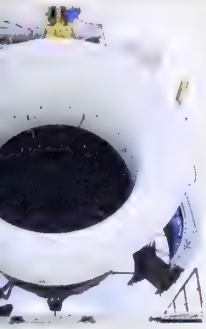

RUMBLINGS
The 777 wasn't the windfall jet-engine makers hoped for page 124

GOOD MEDICINE
In health care, the emphasis shifts to quality again page 104

MUTUAL FUND SCOREBOARD

Equity funds were the stars of the quarter, bringing $60 billion in new investment. And it looks as if they have room to run page 112

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Alex Trotman's reorganization is stalling, and the Ford chief needs to find a successor page 30

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e-cutting may be on hold, but it isn't
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Silicon Valley become Dole
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at tax looks simple on paper—but it
may make Apr. 15 trickier

e Corporation

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lty, but it must soothe impatient
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Chuck Watson wants the natural-
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Led by gold and emerging markets, they averaged a 5.45% gain for the quarter—while bonds took a nasty spill

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Health care is looking healthier

Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUMNI SHABI

TALK SHOW "My experience with the Federal Reserve...ha led me to conclude that this is an extraordinarily well-run organization."—*Alan Greenspan, on a General Accounting Office report knocking the Fed for inadequate internal cost controls*

HONCHOS

WILL JACK SMITH PUNCH OUT EARLY?

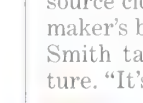
GENERAL MOTORS CHAIRMAN Jack Smith is considering early retirement. Not right away, but in four years, when he'll be 62—three years short of GM's mandatory retirement age. So says a source close to the No. 1 auto maker's board who has heard Smith talking about his future. "It's a very trying job," the source says. "He's working seven days a week."

Smith doesn't flatly pledge to stay to 65. All he will say, through a spokeswoman: "I don't know what the fuss is all about. I have no plans for retirement." If Smith leaves in 2000, his heir apparent, 54-year-old Vice-Chairman Harry Pearce, would have more time at the wheel—seven years. Pearce is a board favorite and just received additional kudos as GM's point man for the United Auto Workers in the recent 17-day strike over outsourcing.

SMITH: *Getting GM's skid under control*

Smith, who made his mark by turning moribund Europe-an operations into cash cow in the 198 hopes to do the same North America by tirement time. Sm (1994 pay: $5.7 milli became CEO in 1992 a just took on the cha man's title, partly reward for his work storing GM's health. F Smith and his wife, Lydia, said to be eager to enjoy th hobbies, including skiing a safaris. *Keith Naugh*

BANK NOTES



PERELMAN: *Biding time*

ADRIFT IN THRIFTS

RON PERELMAN'S campaign to build a savings and loan powerhouse by gobbling up California thrifts has hit a roadblock. Merger talks recently broke down between his deal-hungry San Francisco S&L and California Financial Holding, parent of $1 billion Stockton Savings Bank. But the snag is likely to be temporary for the wily financier.

Perelman's lieutenants won't say why California Financial, in particular, didn't work out. But they do say thrifts lately want juicier premiums than Perelman paid for the two S&Ls he bought in 1995. Perelman's outfit, First Nationwide Bank, offered $24 a share for California Financial, roughly 30% over its market price—in line with his other recent thrift deals.

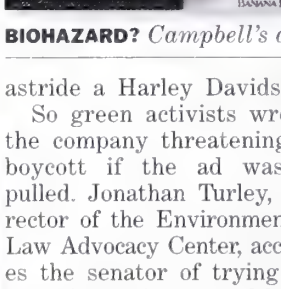
Upshot: Perelman's people say they may just wait a while for things to calm down. After all, thrift performances tend to be spotty, so First Nationwide, which he bought in 1994 from Ford Motor, doesn't face much bidding competition. A waiting strategy may work. People close to California Financial, whose 1995 return on equity was a paltry 2.26%, say its board was divided on a sale—and has given management six months to turn it around before putting it back on the block.

Perelman has made First Nationwide a strong takeover vehicle by, among other things, using tax breaks from a failed Texas thrift he bought in 1988. Result: a sizzling 1995 return on equity of 32%. *Sam Zuckerman*

MAD AVE

FALL INTO THE GAFFE

GAP, WHICH IS ABOUT AS green as Corporate America gets, just ran newspaper and magazine ads featuring a senator whom some environmentalists call an enemy. The ad campaign, launched Mar. 3 for Gap's Banana Republic chain, featured Senator Ben Nighthorse Campbell (R-Colo.) wearing black jeans astride a Harley Davids



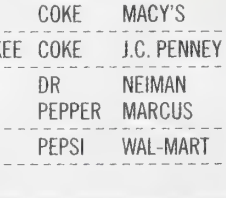
BIOHAZARD? *Campbell's*

So green activists wr the company threatenin boycott if the ad was pulled. Jonathan Turley, rector of the Environmer Law Advocacy Center, acc es the senator of trying "gut the environmental la and sell public lands."

The ad is no longer r ning, but Gap says it v only slated for a week a way. Campbell "was chos for his independence of spi not his politics," explains C Chief Financial Officer W ren Hashagen Jr. Gap's o enviro-activism includes nations to such groups as Natural Resources Defe Council. A Campbell spok man says that "special int est pressure" spoiled sor thing fun. The sena donated his $2,000 ad fee Montana's Dull Knife Mem al College. *Linda Himelst*

THE LIST STRANGE BRANDFELLOWS

Consumer perceptions may say something about the Presidential contenders' voter appeal. Landor Associates surveyed 300 consumers, asking them to match brand names with the candidates. Bill Clinton, Bob Dole, and Pat Buchanan were linked with "average Joe" brands. Exception: Republican Dole is associated with Cadillac, the luxury car for older Americans. Perhaps that's due to his 72 years and "party of the rich" affiliation. Buchanan's soda is perennial No. 2 Pepsi. Billionaire Ross Perot has a more upscale brand profile. But his soft drink is Dr Pepper, which positions itself as a maverick.



VOX POP: *Coke*

BRANDS MOST LINKED TO CANDIDATES

	AUTO	BEER	SODA	STORE
BILL CLINTON	CHEVROLET	BUDWEISER	COKE	MACY'S
BOB DOLE	CADILLAC	OLD MILWAUKEE	COKE	J.C. PENNEY
ROSS PEROT	CADILLAC	COORS	DR PEPPER	NEIMAN MARCUS
PAT BUCHANAN	CHEVROLET	BUDWEISER	PEPSI	WAL-MART

DATA: LANDOR ASSOCIATES

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Up Front

WHEELER-DEALERS

HOME SHOPPING GETS RHYTHM

ROY SPEER HAS RETURNED TO his element. A principal founder of Home Shopping Network, which he sold in 1993 while undergoing a grand-jury investigation, he has a new shopping channel.

The ever-combative Speer has taken over MOR Music, a music channel where viewers order compact disks and tapes of videos they watch. Although MOR is in only 1.3 million cable homes full-time, Speer plans to go nationwide and perhaps branch into country, gospel, and Spanish music channels. He says he's losing $100,000 per month but aims for a turn-around by yearend "at a minimum."

He has the capital. In 1994, Speer sold his controlling interest in HSN to Liberty Media for $400 million in cash and stock. (Silver King later bought it.) At the time, he was battling a federal inquiry into whether he took kickbacks from retailers seen on HSN, which he denied. The grand jury ended up leveling no charges, and Speer says the probe had no bearing on why he sold HSN. He says it was a good time to sell, since costly license renewals were coming up with cable systems.

SPEER: *MTV meets HSN*

After buying MOR for $10 million, Speer, 63, and son Richard spent $100 million to convert a Nashville Sam's Club outlet into a state-of-the-art telecom center. While Roy is active in MOR, his son runs it. *Bill Carey*

IN YOUR FACE: *Dining in Greenville, S.C.*

SHOW BIZ

A NATION OF MALL POTATOES?

NOPE, YOU REALLY CAN'T escape advertising. Soon, when you're snacking at the local mall's food court, you may find yourself watching TV ads. A company called Food Court Entertainment Network just raised $16 million in an initial stock offering to install its sets in 750 malls nationally over the next five years.

Food Court's program, called Cafe USA, is a 30-minute satellite-fed show of news (updated twice daily), sports, entertainment, and—natch—eight minutes of ads. Beaming shows to captive audiences, though, has had mixed success. Turner Broadcasting's CNN Airport Network, begun in 1992, is a hit, now in 25 major U.S. airports. But Turner's Checkout Channel was yanked in 1993 after a year. Analysts say supermarket shoppers found it too vexing while trapped in lines.

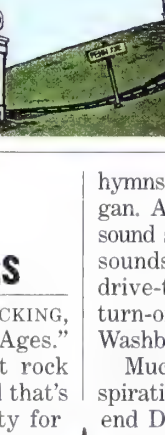
Food Court CEO Steve Bowen, former president of the J. Walter Thompson ad firm, predicts his venture will break even by 1997. Reason: People will like his show, since they're seated and enjoying a meal. "Fifty percent of Americans watch TV when they're eating dinner," says Bowen, who has just tested the concept at four malls. *Julianne Slovak*

DRAWN & QUARTERED

PRODUCT PEEK

ONWARD, ROCK 'N' ROLLERS

WORSHIPPERS ARE ROCKING, and not with "Rock of Ages." A new trend has put rock music in services—and that's a heavenly opportunity for Washburn International, a Vernon Hills (Ill.) guitar and audio-gear maker. Sound systems for churches are the 116-year-old Washburn's fastest-growing segment, bringing in $1 million last year. The $40 million company, which only entered the church biz in 1994, expects 25% annual growth for it through 2000.

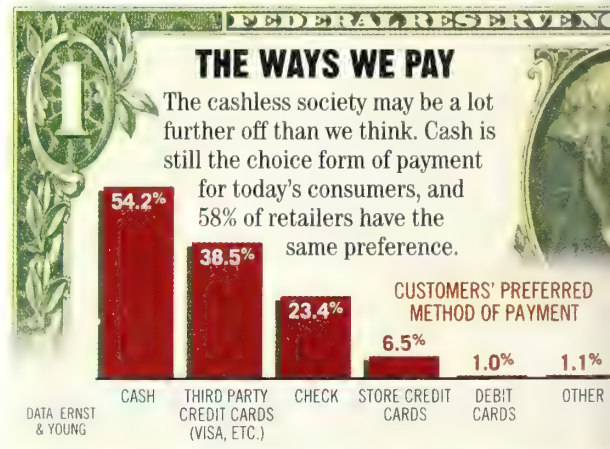


Why? Baby boomers are rediscovering religion, but many aren't happy with creaky old hymns accompanied by an gan. And they're used to sound systems. "A church sounds like a McDona drive-through" speaker turn-off, says Joe Bak Washburn's exec veep.

Much of the venture's spiration is from the Re end Doug Prewitt, music rector of a Baptist churc Independence, Mo. Wa burn consultant Prewitt installed $10,000 worth its sound gear.

While Washburn has cused on the Midwest, marketing potential church audio is natio David Musial agr to become music di tor of Saints Pete Paul Catholic Chu in Hoboken, N.J., after it bought eno equipment to hand 12-member combo mass. *Susan Jack*

THE BIG PICTURE



FOOTNOTES Unskilled knowledge-worker jobs by 2000, per Christian & Timbers, without retraining of industrial workers: 20%

Chances are
we've helped your business.
(Even if you've never owned a Macintosh.)

ck in 1984, a young company named Apple Computer did a rather narkable thing. It introduced a new way of computing. A new way of ting things done.

A new way named Macintosh.

Sure, personal computers had been around for a while. But never fore had one computer so completely, so instantly, changed the land-pe of the possible.

Making the extraordinary ordinary.

the 12 years since, Apple® innovations have continued to redefine what ople can do with a personal computer. They've also found their way o some of our competitors' PCs and operating systems. For example, plug-and-play technology we brought to market in 1987 is just now coming a reality for other PC makers. Macintosh was one of the first ordable desktop computers to employ powerful RISC-sed microprocessors. (We're now working on fourth-generation PowerPC™ RISC chip.) d we're still the only company in the rld making a computer that runs h the Mac™ OS and Windows.*

As a result of these Apple innova-ns, ordinary people can sit down at all ds of PCs and actually get some work ne. Of course, if they sit down at a cintosh, they can build 3-D graphics. Use virtual reality in very real ys. Videoconference across continents. Collaborate with colleagues on far side of the corporate campus. Build interactive sites on the World de Web. And more. That's the Mac advantage.

More than a few of the things that seem standard on a personal computer today were pioneered by Apple

People do know the difference.

day, 56 million people do their work the Macintosh way. Some in hool. Some at home. And, when you look at the numbers from recent dies, quite a few in business. We command a 47% share of the U.S. mmercial publishing market. And 76.2% of the color pre-press market. d though our dominance in graphics-related businesses may not shock you, consider this: we have a 50% share of the chemical, pharmaceutical, biotechnology, scientific and engineering computing markets.

And then, there's the fact that Macintosh brand loyalty is the highest of any PC in the world: 90% of Macintosh customers buy a Mac the next time around. Which leads people like Andrew Laham, MIS Director at the law firm Fleming, Hovenkamp & Grayson, to say, *"There would be a major crisis if we had to do without Macs. In fact, there would be an open revolt."* Indeed, if the mail we've received lately is any indication, more than a few CFOs out there would revolt, too, if their companies didn't use Macintosh computers.

"NASA saved $800,000 a year on maintenance alone when we replaced their legacy system with a Macintosh system," says Steve Monteith, a member of the Research Triangle Institute TechTracS Team.

And if you replace a Windows system with a Mac? According to a recent study by the Gartner Group, technical support costs for Macintosh tend to be 25% lower than support costs for Windows.** Even *PC World* magazine ranked Apple as one of the best for reliability and service among all makers of personal computers.

See the future. Turn on a Mac.

As they say, you can't simply rest on your laurels. So what's next? Let's start with Copland, our upcoming operating system. Copland won't just change the look of the Macintosh desktop; it will incorporate an entirely new technology called OpenDoc that will change the way you think about computers. (Sound like hype? Check out *InfoWorld*—they named OpenDoc the winner of the 1995 Landmark Technology Award.)

And then there are the 53 new software patents we were awarded in 1995, patents on everything from wireless communication, power management and manufacturing systems to data encoding, data compression and encryption. That's more than enough innovation to bring another generation, or three, of intelligent business tools to market.

The kinds of tools that keep your productivity up. Your costs down. The kinds of tools that keep your people motivated to push the limits. To challenge the unknown. To discover the unexpected. And bring it to market. You know, the same things we keep doing with Macintosh. Year after year.

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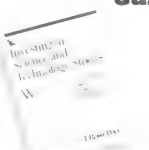

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Readers Report

MAYBE UNITED OWES ITS RISE TO MORE THAN THE ESOP

Congratulations on recognizing the success and opportunity that United Airlines Inc. and the employee stock-ownership plan (ESOP) have created ("United we own," Cover Story, Mar. 18). Your article highlights many of the same points we stress with small companies establishing ESOPs. When you cut through it, however, it is good management, strong leadership, and good people that build strong companies. Shareholders and boards can, and should, only oversee, not implement.

Jack Pfeffer
Principal, The Management Team
Dallas

As an unwilling participant in the United Airlines ESOP, I read your article with interest. Will the ESOP be a success? Time will tell. Meanwhile, many employees are doing a slow burn watching management cash in their stock options, becoming instant millionaires as the stock hit new highs recently. The rest of us can cash out only on the day we retire. If the stock is trading at $200 on Dec. 31, 2002, I'll have recouped my investment. But if it's trading at $30, where I've seen it many times during my 29 years, I'll be wiped out. For many of us, the ESOP, far from providing security, is more like a crapshoot.

John Corradi
B-727 Captain
Rixeyville, Va.

MAINFRAMES ARE FAR FROM DEAD AT UNISYS

In "Here come those slow-growth blues" (Corporate Scoreboard, Mar. 4), you say: "Unisys took a $582 million charge to cut jobs and ditch mainframes." Sorry, but your mainframe prognosis is way out in left field. More than any other computer company, Unisys has been successfully transitioning mainframe capabilities to state-of-the-art enterprise servers. In fact, on Apr. 9, we will be announcing a new family of enterprisewide servers that will turn this business upside down.

Alan G. Lutz
Executive Vice-President
Unisys Corp.
Blue Bell, Pa.

Editor's note: BUSINESS WEEK should not have used the word "ditch." However, Unisys has been reducing its dependence on mainframes.

CORRECTIONS & CLARIFICATIONS

"Is this the man to topple Mexico's ruling party?" (International Outlook, Apr. 1) reported that Mexican President Ernesto Zedillo Ponce de León had promised that only Mexican companies would be allowed to manage a new system of private pension funds. In fact, a bill before Mexico's National Congress proposes that foreign companies also be allowed to manage such funds.

Rick Cerone, spokesman for the New York Yankees, is not Rick Cerone, former catcher for the Yankees, as the commentary "O.K., baseball, you've got one last chance" (News: Analysis & Commentary, Apr. 1) stated. The ex-catcher is an announcer for the Yankees.

In "Steve Wynn's full house" (People, Apr. 1), BUSINESS WEEK erroneously reported that Mirage Resorts Inc. had bought nearly 5% of Circus Circus Enterprises and has reaped a $33 million gain. In fact, Mirage owns less than 1% of Circus Circus and has booked a gain of $2.5 million.

KEEPING THE FAITH WITH ARIEL

I am writing in response to your article on John Rogers and Ariel Capital Management Inc. ("Ariel's fall from grace," Finance, Feb. 26). The Chicago Urban League established a business relationship with Ariel Capital Management in 1985. In developing the relationship, we embraced John Rogers' investment philosophy. This relationship

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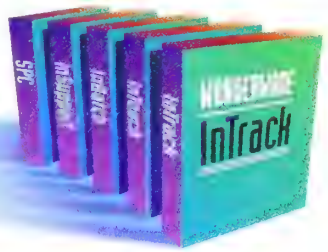

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This illustration is a representation of how Wonderware and Microsoft are working together to provide integrated industrial automation solutions.

has been highly beneficial for the league. We view the current decline in the average annual return on investment of Ariel's portfolio as just a small glitch in an otherwise outstanding performance by an investment manager, minority or otherwise. We remain confident that John Rogers and his management team possess the skill and philosophical outlook to guide the firm back to the high level of performance it enjoyed up to the early 1990s. We intend to maintain our relationship with Ariel for the foreseeable future.

James W. Compton
President and CEO
Chicago Urban League
Chicago

THE NEW MATH OF MOVIE ACCOUNTING

Your article, "Fatal subtraction?" (Entertainment, Mar. 11), implied that it was the capitalization of advertising expense that was the culprit causing an overstatement of assets.

The problem in the movie industry is not the accounting rules but the application of those rules to specific situations. If assets are overstated, it is because of overly optimistic amortization periods—not because advertising is being capitalized. Accounting rules require that a company allocate its advertising benefits over a life that can be justified by historical experience. The question should be not with the principle of capitalizing advertising but with whether a movie producer can show historical statistics to justify the life assigned to film rights.

Dale L. Flesher
Professor of Accounting
University of Mississippi
University, Miss.

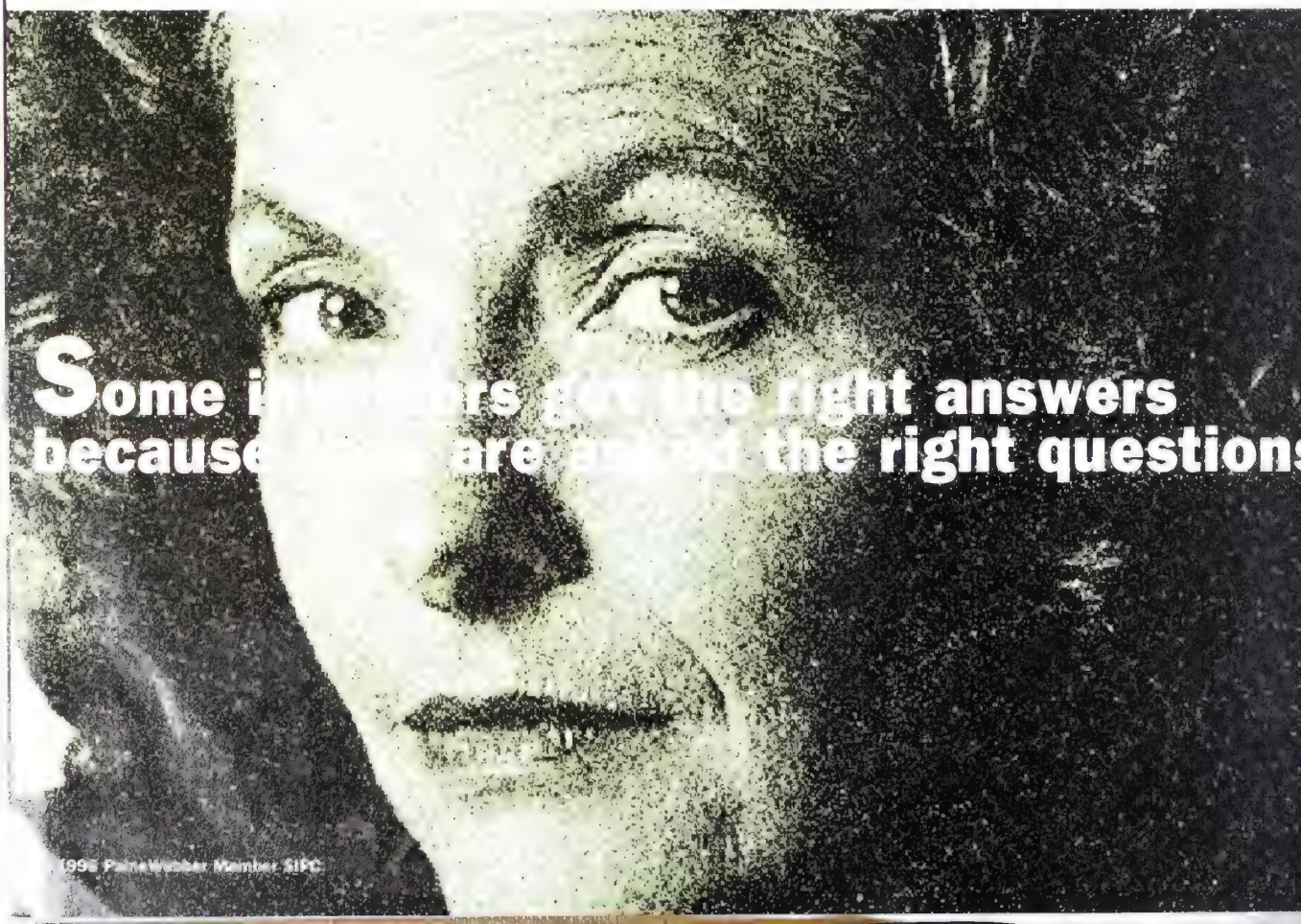
Your discussion of an entertainment industry task force's proposed motion-picture accounting-rule changes—could lead a reader to an erroneous conclusion about the potential impact of these changes on Sony Pictures Entertainment.

The article quotes David Londoner, a member of the task force, as estimating that between 40% and 55% of an entertainment company's inventory of released films is made up of advertising and overhead costs. The same paragraph states that Sony Corp. has $2 billion in unamortized film costs, implying that between $800 million and $1.1 billion of advertising and overhead cost are in Sony's inventory. This is not true. s inventory balance includes television ventory, videocassette inventory, de opment costs, films in production, ar purchase accounting adjustment rec ed when Sony purchased Columbia tures Entertainment in 1989. None these items falls into the category "unamortized film costs," and the rules, if adopted, would not have an pact on any of these portions of our ventory. In addition, the percentage advertising and overhead costs inclu in Sony's inventory of released film the only portion of inventory subjec the new rules—is less than the low of Londoner's 40% to 55% range.

Because of these factors, the poter financial impact of the proposed rules on SPE would be only a small f tion of BUSINESS WEEK's implied num

Bruce Red
Senior Vice-Presid
Sony Pictu
Culver City, C

Editor's note: A spokesman for S Corp. of America, Sony Pictures' p ent company, erroneously confirme BUSINESS WEEK the $2 billion in amortized film costs figure.



DEFENSE
CAR DEALERS

Vith the publication of "Revolution in showroom" (Cover Story, Feb. 19), NESS WEEK has joined a media feed-frenzy to bury, as you put it, "the ky, antiquated, and inefficient deal-ip system." No one would deny that matic changes are sweeping our in-ry, but I would like to remind you in 100 years of producing cars in country, no system has proven more ctive for retailing new cars and ks than the current one of individu-ealer-entrepreneurs. Independent eys show the majority of new-car ers today expressing considerable sfaction with the current process.

Moreover, your editorial "Bring the market to car lots" is dead wrong to that dozens of state laws "protect dealers from competition by making rd for national retailers to enter the -car business." In fact, these laws not bar any manufacturer from es-shing a franchise anywhere. There now 49 state laws providing dealers a small measure of protection nst the common practice by manufac-rs of arbitrarily adding dealerships. y states have what are called Rele-Market Area (RMA) provisions in their laws to provide limited rights for existing dealers to protest the addition of same-make dealerships in their market areas. In other words, a manufacturer, in most states, must establish that good cause exists to add a new franchise point.

John P. Peterson
President
National Automobile Dealers Assn.
McLean, Va.

LOSING THOMSON COULD WOUND LEXIS/NEXIS

As for Thomson Corp.'s purchase of West Publishing Co. ("Lord of the cyberpress," News: Analysis & Commentary, Mar. 11), I'd like to make the point that West and its bitter rival, Lexis/Nexis, constitute the only real choices for online legal research. Lexis/Nexis currently carries a number of Thomson publications to supplement its online case reporting and round out its offerings to match West's. Thomson owns a number of publications, including those of Lawyers' Cooperative, a major publisher of legal encyclopedias, law reviews, and code books. If Thomson pulls such crucial research tools from Lexis/Nexis, it will leave Lexis/Nexis as a rather unattractive alternative to West. Frankly, I do not see how Lexis/Nexis can survive without them. Furthermore, Thomson's purchase makes it the owner of both of the two major U.S. code publications (*U.S. Code Service* and *U.S. Code Annotated*) and both of the major legal encyclopedias (*American Jurisprudence* and *Corpus Juris Secundum*). The purchase, therefore, could raise real anticompetition issues.

Benjamin Younger Pitts
Chattanooga

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A SCARY WARNING—OR SCARE STORY?

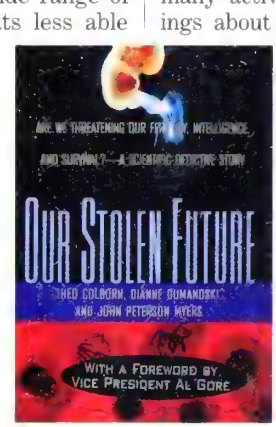
What do the breakdown of the family, dead whales, shrunken alligator penises, hyperactive children, disappearing frogs, and breast cancer have in common? According to *Our Stolen Future*, a disturbing new book by *Boston Globe* writer Dianne Dumanoski and scientists Theo Colborn and John Peterson Myers, they all may be linked to the modern era's witches' brew of pesticides, plastics, and other man-made substances.

Many of these chemicals are capable of mimicking estrogen and other natural hormones. As a result, the authors argue, the substances may be wreaking havoc on the biological world. "We have become unwitting guinea pigs in our own vast experiment," they write. In addition to threatening people's ability to reproduce, the book warns, "chemicals that disrupt hormone messages have the power to rob us of...the essence of our humanity."

Unfortunately, such sweeping claims and overwrought prose go a long way toward robbing the book of its credibility. Nor does it help that the authors offer decidedly slanted interpretations of the data on such crucial issues as human sperm counts. The net effect is to push the book down the slippery slope from journalism to polemic—making it easier for the chemical industry to attack the entire argument.

That's a shame, because there is reason to be concerned about the hormone-like effects of chemicals, particularly on wildlife. "No scientist who has read this evidence can shrug it off," says Pierre Béland, senior scientist at the St. Lawrence National Institute of Ecotoxicology in Montreal, in reaction to the book. Consider the failure of ranched mink to bear young after being fed PCB-laden fish from the Great Lakes in the 1960s. Or look at the alligators of Florida's Lake Apopka. In the years following a 1980 pesticide spill, most eggs failed to hatch—and males that did survive had abnormally small penises.

The list of species in which researchers have found behavioral or reproductive changes consistent with exposure to estrogen-mimicking chemicals includes eagles, beluga whales, otters, and gulls. Moreover, lab studies show that small amounts of these chemicals given at crucial times during embryo development can have a wide range of effects, such as making rats less able to handle stress. The new evidence adds weight to the already overwhelming arguments for continuing the battle against pollution.



But is this "hormone havoc" plaguing people, too? For the authors, the answer is "inescapable: the hormone disrupters threatening the survival of animal populations are also jeopardizing the human future." And "the most dramatic and troubling sign" of this is a plunge in human sperm counts over the past 50 years. The main evidence: a 1992 Danish report that combined dozens of previous studies to claim a 50% drop.

Trouble is, the report is seriously flawed. Indeed, a more sophisticated 1995 reanalysis of the same data and several soon-to-be-published studies by researchers at the University of Washington and Columbia Presbyterian Medical Center show no sperm-count change at all over the past 25 years. "There's no convincing evidence of a global problem," concludes urologist Larry I. Lipshultz of the Baylor College of Medicine in Houston. Without such evidence, much of the argument for a human threat collapses.

Our Stolen Future also stumbles on the crucial question of whether synthetic hormone-mimics are intrinsic different—and more dangerous—fr myriad similar substances found in ture. The book does note that a w variety of plants—from garlic wheat—harbor chemicals that also like mammalian hormones. And so researchers estimate that people exposed to thousands or even millions times more of these natural chemic than the man-made substances.

The book argues, however, that synthetic chemicals have a far grea effect than natural ones because t linger longer in the body and th hasn't been time for evolution to al the body to adjust to them. Many en ronmentalists have used these same guments to claim that, as causes of c cer, pesticides and other synthe chemicals are much more worrisome t the far larger amounts of natural c cinogens people eat every day. Inde many activists have issued dire wa ings about soaring cancer rates cau by man-made chemicals.

But the claim hasn't h up. In fact, after Colb spent months poring o cancer data, the book t us, she came to the con sion that "the high can rates she had heard much about appeared to more myth than reality.

This startling admiss from the environmenta camp doesn't prove, course, that synthetic che icals aren't more potent hormone disrupters than natural s stances. But it does show that on t key question of proving that man-ma factors are more significant than nat al ones, the environmentalist tra record is not good. Moreover, the f that people are living longer seems challenge the notion that we're do awful things to ourselves with chemic

This doesn't mean that countries a companies shouldn't try hard to redu the amounts of chemicals they sp into the world, as the authors reco mend. But with its selective use of da dubious logic, and relentless hype, *Stolen Future* ends up doing a seri disservice to its own cause.

BY JOHN CAR

Senior Correspondent Carey cov science issues from Washington.

CHEMICALS DO PLAY HAVOC WITH SOME SPECIES, BUT THERE'S SCANT PROOF MAN IS ON THE LIST

Plan for Growth

More than 500 international companies have set up in Dubai in the past four years. Why?

he Potential

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STEPHEN H. WILDSTROM

MOVE OVER, ETSCAPE

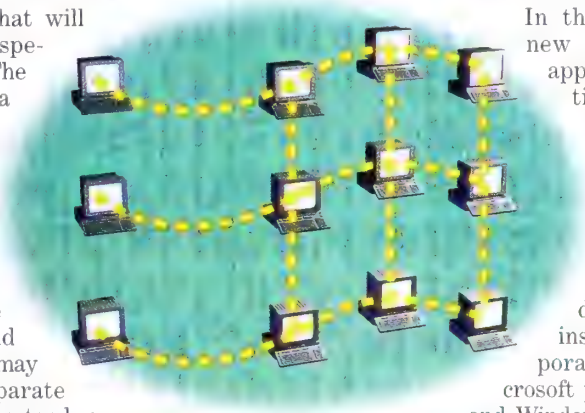
new Windows 95 plication may ke Web browsing ch easier

ince Microsoft launched its Windows 95 last summer, about 20 mil- computer owners have ed over to the new op- ing system. But perhaps e times that many peo- have delayed: They see compelling reason to nge. Now, the software gi- thinks that it has the er application that will e upgrades, espe- y in business. The elopment is a dows update ed Nashville, ch will bring Internet di- ly to your ktop.

ust what does mean? For one g, the World e Web browser may appear as a separate e of software. Instead, a version of the Windows olorer, which I have seen nonstrated, will allow you browse your own comput- a local area network, or Internet using the same eens and the same menu mands.

BILLS? Click on a Mi- soft Word document at a o site, and it will come up Word on your screen. On r hard drive, click on a ument written in HTML, language of the Web, and 'll think you're out on the . "You will have one en- onment for exploring all information you want," s Brad A. Silverberg, who heads Microsoft's new Internet Div.

This opens up a world of possibilities to software developers—and can also lead to impressive bills for your Internet connect time. While you're hooked up to the Net, Starwave's sports ticker (http://espnet.sportszone.com), which runs in a Netscape Navigator window, could become part of your desktop. Or PointCast's news, weather, and stock-quote service (http://www.pointcast.com), which currently acts as a screen saver, could be the "wallpaper" screen background instead.



The approach is Microsoft's answer to the stunning recent growth of the Web—and to the threat posed by browser-maker Netscape Communications. Netscape and Sun Microsystems have argued that programs written in the Java language, which will run on different computers, could eliminate the need for Windows. Microsoft wants Windows to eliminate the need for browsers. Microsoft has the advantage here. Sun must develop new chips and new operating software: Nashville relies on the network support that's already built into Win 95 and NT. (Macintosh users will get a similar measure of integration with a technology called Cyberdog in the next version of Mac OS, which Apple Computer promises to ship by yearend.)

WIN-WIN. Microsoft has yet to name its Windows upgrade, which is due out this summer. The company hasn't even decided whether to give it away, like the Internet Explorer browser, or sell it, like the $45 Win 95 Plus! add-on. Web integration will be most helpful to those with a direct and relatively fast connection to the Internet, so home users may not be able to enjoy the full advantage until technologies such as ISDN or cable Internet connections become common.

In the meantime, the new approach should appeal to corporations, where fast, direct Net connections are widespread. This is the segment that has lagged behind in upgrading from Windows 3.1. And to inspire further corporate adoption, Microsoft plans both Win 95 and Windows NT versions. A preview is due in April with the release of a test version of Internet Explorer 3.0, which incorporates many of the new features.

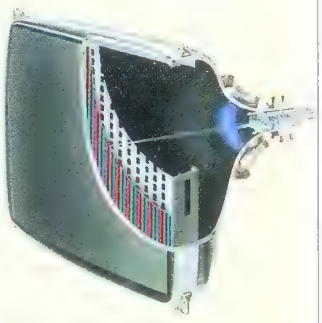
It still has to overcome Netscape's big lead in browsers, but Microsoft may be in a win-win position. For now, Java and other kinds of net software need the power of Win 95 or NT. So whether you browse Microsoft's way or Netscape's, you won't get the full benefit of the Net with Windows 3.1. The Internet, something of an afterthought for Windows 95, may be the force that makes it indispensable.

BULLETIN BOARD

MULTIMEDIA MONITORS

LIVELY VIDEO

Computer monitors are designed to provide crisp, readable text. But that means videos that are part of many multimedia programs and games often appear murky. A new line of monitors from NEC Technologies (800 632-4636)



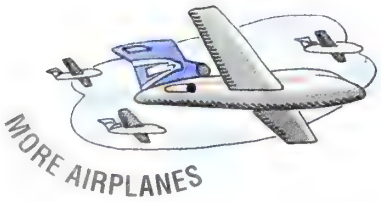
offers a video boost that makes movies brighter and livelier: ChromaClear monitors give better focus and color saturation by using a mask with elliptical slots in place of the round holes in conventional CRT shadow masks or the slits in Sony Trinitrons. The 15-in. MultiSync M500 retails for $599, the 17-in. M700 for $899. Both include speakers and a microphone.

SOFTWARE

A VIRTUAL TRIP

If you're looking for inexpensive software to plan itineraries, consider Road Trips from TravRoute Software (800 297-8728). The $30 CD-ROM-based Windows program lacks the extensive data on attractions and accommodations provided by rivals such as Rand McNally TripMaker. But it's able to locate more than 200,000 cities, nearly twice as many as TripMaker, and quickly plot the fastest or shortest routes or use your custom specifications. You can then print a route map and detailed directions.

QUESTIONS? COMMENTS? E-mail tech&you@businessweek.com or fax (202) 383-2125



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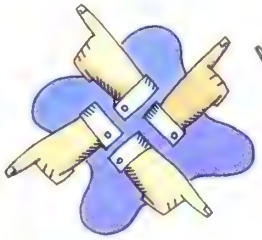

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OPE
IS DROWNING IN JOBLESSNESS

DISGRACE: Misguided governments continue to overtax and overregulate—and some are raising minimum wages to insane levels

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

Many intellectuals in the U.S. and Asia believe that European social welfare policies should be a blueprint for action in their own countries. But those policies, financed by high taxes and costly mandates on business, are mainly responsible for the enormous increase in European unemployment during the past decade and a half. This "European disease" is hardly a model for other nations.

I recently attended a conference in Paris convened by some French economists interested in promoting policies to reduce unemployment in France. In the late 1970s, unemployment was under 5% in France, Germany, and most other Western European nations. It is now closer to 12% in France and Germany and about 20% in Spain. The average rate for those under age 25 exceeds 20% in almost all European Union nations. In contrast, unemployment in the U.S. has not increased during the past 15 years, is only 5.5% at present, and is about 12% for young workers.

America's experience shows that the growth in European unemployment is not due simply to greater competition from the less developed world nor to other forces that have affected all advanced countries equally. The rapid growth of labor costs throughout Europe appears to have been a principal cause of the explosion in unemployment.

About half of Germany's and France's average labor cost results from social security, health, unemployment compensation, disability, and other taxes; other European nations have similar shares. Regulations that restrict layoffs and mandate numerous vacation days and other paid leaves also raise the cost of labor markedly.

OFF THE BOOKS. Government-imposed burdens have spurred the growth of the underground economy: Crude estimates suggest that 25% of all Italian and Spanish workers earn at least some income off the books, as do 10% of those in Belgium, France, Germany, and Sweden.

When labor is expensive and firing employees is difficult, companies are reluctant either to replace departing workers or to expand employment when the economy picks up. This is why it now takes much longer than it did a decade ago to find a job in Europe if you are a young job-seeker, a mother returning to work after childbirth, or an immigrant. Those out of work for more tha year now account for one-third of the une ployed. Furthermore, private employment the EU has barely increased during the p two decades: The public sector accounts for most all employment growth. By contrast, Japan and the U.S., private employment surged while government employment grown little.

The long-term unemployed, youths w have never had a steady job, temporary e ployees, and underground workers have lit opportunity to invest in job skills and traini The sharp growth in these categories mea that fewer European workers are bei trained. This inadequate training makes still harder for workers to find satisfact long-term jobs.

Teenagers, high school dropouts, and i migrants frequently find jobs in small est lishments, especially fast-food chains and o er retail operations. Increasing the minim wage puts some of them out of work, cause their productivity is too low to just the cost to employers.

FOOLISH. Yet some European governments, misguided attempts to raise incomes a spending, have foolishly increased their mi mum wages—the conservative French g ernment last summer raised the minimum 4% to more than $7.25 an hour. Even th American economists who advocate sligh raising the U.S. minimum wage—now $4.25 an hour—would probably agree tha $7.25-per-hour minimum wage would shar curtail opportunities for teenagers and oth with few skills.

Government regulations and old-age be fits, not company needs, also explain the dr tic fall in European labor-force participati rates of men aged 60 to 65—from about 8 in the 1960s to under 50% in many countr now. Relaxation of eligibility requireme for disability pay and generous social secur benefits induced many workers to retire e ly. Why keep working if you can get alm as much income by retiring and collectin pension from the government?

Taxes and death may be inevitable, not the degree of taxation and regulation p vailing in Europe. A large dent will not made in their disgracefully high unempl ment rates until European policies are rec nized for what they are: A serious dise that badly infects their labor markets.

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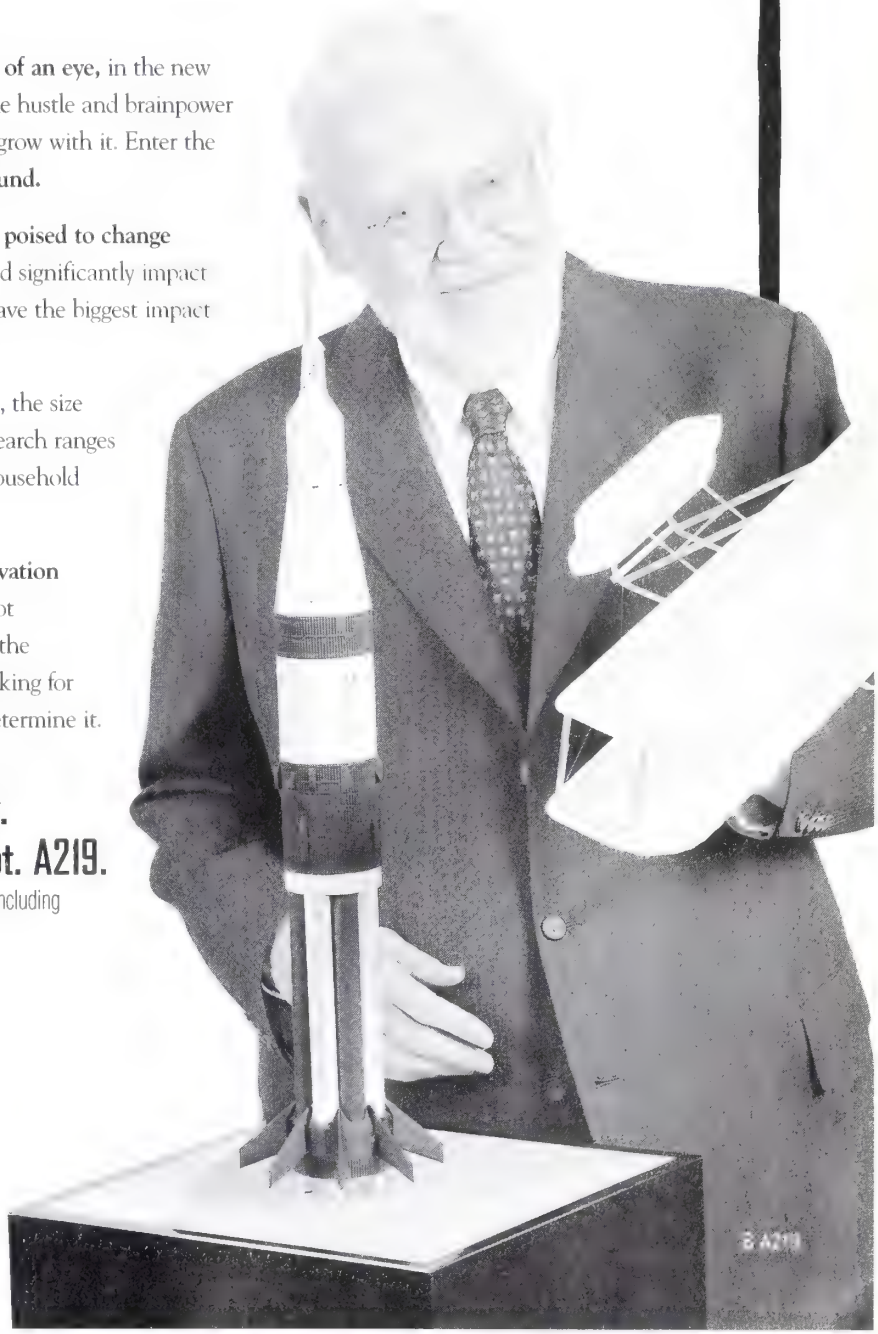

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BY GENE KORETZ

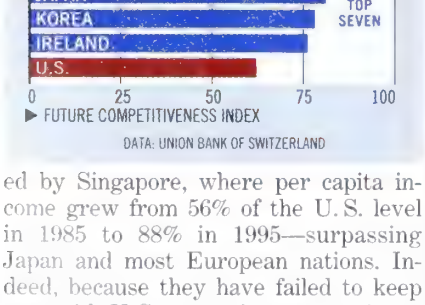
COMING UP FAST ON THE OUTSIDE

Nations to watch in the global race

Which nations are likely to make the most economic progress in the decade ahead? Some of the answers, according to an index devised by Union Bank of Switzerland economists, may come as a surprise. The leading candidate, says the bank, is Singapore, but the top 7 out of 40 countries ranked (Hong Kong and Taiwan are omitted because of incomplete data) include not only Japan and Asia's fastest-growing economies but also little Ireland.

To be sure, the bank notes that the U.S. is still No. 1 in current economic competitiveness—measured by per capita output in purchasing power terms. And other major industrial nations remain in the front of the pack. Among the Group of Seven, the second-highest is Canada, with an estimated 83% of U.S. per capita output, followed by Japan's 82% and France's 78%.

But the most dramatic recent improvement in the past decade was post-



ed by Singapore, where per capita income grew from 56% of the U.S. level in 1985 to 88% in 1995—surpassing Japan and most European nations. Indeed, because they have failed to keep pace with U.S. economic restructuring, a number of leading industrial nations have lost relative ground in recent years.

Looking ahead, the bank's criteria for its future competitiveness index range from high national savings and research outlays to fast export growth, stable inflation, and low government spending. By such measures, nations from East and Southeast Asia top the index (chart). In fact, if recent trends continue, the bank calculates that Singapore would soon surpass the U.S. in per capita output—as would other Asian Tigers, Japan, and even Ireland and Chile by 2010.

The caveat, adds the bank, is that "the catch-up itself will alter these trends," as the Tigers are likely to encounter higher labor costs and other problems bedeviling traditional industrial nations. Still, the fast economic progress chalked up by a number of nations and their high competitiveness ratings suggest that America's lead will inevitably dwindle.

LURING BUSINESS WITH LOW TAXES

Is it the right gambit for states?

With companies becoming ever more mobile, many states have been busy cutting business taxes to enhance their business climates and promote growth. A study by economist Robert Tannenwald of the Federal Reserve Bank of Boston, however, suggests that such strategies may be misplaced.

Tannenwald notes that measuring state tax climates is no easy matter. State corporate income tax rates, for example, fail to take into account most taxes and fees paid by business, such as taxes on net worth, property, payroll, and purchases of inputs. And they don't reflect deductions and exclusions.

Giving weight to such factors, Tannenwald measured the tax competitiveness of 22 states in 1991 from the standpoint of a typical business setting up a new facility. Surprisingly, his findings indicate that several states—such as Alabama and New York—that are often regarded as high taxers, actually offered relatively favorable tax climates for business expansion.

Alabama headed the competitiveness list in part because it allows corporations to deduct federal taxes from their taxable income. New York not only offset its high income tax with a generous investment tax credit, but had relatively low property and unemployment insurance levies, and imposed no taxes on net worth or capital stock.

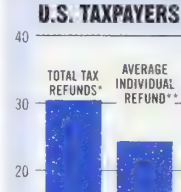
All in all, though, Tannenwald found only modest differences in business-tax climates among most states. Further, he found that tax climates had only a small, highly uncertain effect on expansion decisions. Thus, instead of engaging in a competitive battle to slash business taxes, many states might do better, he thinks, by enhancing the public services that businesses value.

WHAT'S GOTTEN INTO THE IRS?

Bigger refund checks, and faster

Remember a year ago, when del in individual tax refunds depres consumer spending? This year, refu are back to normal—and then some.

Economists Richard F. Hokenson Michael S. Rome at Donaldson, Luf & Jenrette Securities Corp. note t total tax refunds and the size of average refund mailed out by the Tr sury through mid-March are up 30% and 24%, respectively, over last year (chart). With some 70% of taxpayers qualifying for refunds and the average refund running about $1,300, the economists figure total refunds this year will come close to 6% of household aftertax income—enough



to have already boosted car and tr sales and to fuel a further "strong celeration in first-half economic growt

NOT SUCH A BAD YEAR FOR JOBS

1995's slowdown looks less sever

Job growth in the U.S. slowed l year from 1994's 3.1% pace, but ec omist David Hensley of Salomon Bro ers Inc. says new Labor Dept. data s gest that the slowdown wasn't pronounced as had been assumed.

Revised state employment estima for last year imply that total U.S. e ployment (adding up the 50 state leve rose by 2.1% between December, 19 and December, 1995. Based on mo complete payroll records, the state d usually influence subsequent revisio of the national numbers, which n show only a 1.5% rise in jobs for 199

The new figures indicate job grov in the Pacific region actually picked steam, bolstered by California's 2.3 rise. The Rocky Mountains, with a 4. gain, still led the nation in job grow Mid-Atlantic states—New York, N Jersey, and Pennsylvania—were the l gards, eking out a scant 0.6% rise.

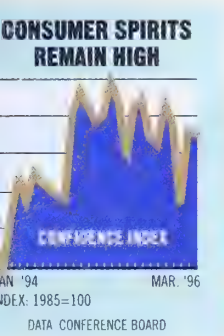
JAMES C. COOPER & KATHLEEN MADIGAN

T'S WAY TOO EARLY O WRITE OFF A RATE CUT

U.S. ECONOMY

Have we seen the last of the Federal Reserve's rate cuts? y a few weeks ago, another quarter-point cut in 5¼% federal funds rate at the Fed's Mar. 26 meet- looked like a slam dunk. Now, that meeting has ne and gone with no action, and a few analysts are n betting that the Fed will have to start raising es later this year.

'rue, with the data suggesting that the economy ebounding from its yearlong malaise, it's logical to ume no further rate cuts are necessary. It also kes sense that a bouncier economy may well call for her rates at some point in order to restrain infla- ary pressures. But that scenario works only as g as you believe that the economy is indeed building another head of steam.



However, that's not the case. Through the haze of the first quarter's distorted reports, the economy appears to have grown about 1%. The latest news shows that housing was healthy in February, and consumers remained upbeat in March (chart). But yet another devil in the data, the strike at General Motors Corp., will rob about one-fourth of a percentage point from the quarter's annual rate of growth. Some snapback in the second quarter is likely, given ter weather and the end of the strike. But even if wth jumps to 3%, the economy's first-half pace uld be no faster than its noninflationary trend of ut 2%. That pickup would come after five quarters growth well below 2%, a situation in which price ssures cannot build.

Also, any rebound to above-trend growth is likely to temporary. By the second half, the recent surge in g-term interest rates will dampen activity in housing l durable goods, and neither consumer outlays, cap- spending, nor exports appear ready to step forward a growth leader. In addition, many businesses are l trying to cut their inventories.

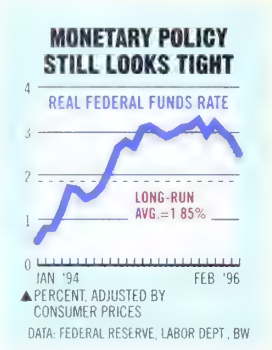
L THIS MEANS further rate cuts are not out of the estion and that talk about a rate hike is way pre- ture. The first quarter was hit by a series of one- e factors that created extraordinary volatility in data. The Fed had no choice but to wait for a arer trend to emerge.

In particular, the Fed's Mar. 26 meeting occurred against the backdrop of especially strong-looking February data that caused a major sell-off in the bond market, resulting in a spike in long-term interest rates. The Fed views bond yields as an indicator of inflationary expectations, and policymakers dared not risk upsetting the markets further by cutting rates at a time when the bond market perceives—rightly or wrongly—that the economy is gathering steam.

The bond market is going to require a lot of convincing, however, that the economy is still on a modest growth track. And until that trend is clear, the Fed is going to have to sit on the sidelines. That means the next chance for a rate cut may even slip past the Fed's next meeting on May 21, all the way to the following powwow on July 2-3.

FLUKY ECONOMIC DATA and a fickle bond market notwithstanding, the Fed has plenty of justification to trim rates. That's because policy is more restrictive than called for by some of the Fed's key benchmarks.

First of all, the current real federal funds rate—5¼% minus 2¾% inflation—is 2½%. That's nearly three-quarters of a point above the 1.85% historical average (chart), which the Fed takes as a ballpark estimate consistent with its target of a neutral policy.



Also, policy is tighter than called for by the "Taylor Rule," which Fed policy has tracked closely in recent quarters. The rule prescribes a federal funds rate that is consistent with achieving both low inflation and sustainable economic growth. Fed insiders say the rule is a good first approximation of the way the Fed approaches monetary policy. Based on first-quarter estimates, the Taylor Rule says the funds rate is about a half point above the optimum level.

Lower interest rates will probably be necessary to assure that economic expansion stays on track in the second half, since no sector looks ready to break out of the pack. Capital spending is slowing, even in the high-tech sector, amid sluggish profit growth and lower capacity use. Weakness in Europe, Canada, and Mexico will restrain export growth.

Manufacturers of interest-sensitive durable goods are struggling. Their new orders fell 2.5% in February,

ERIC HOFFMANN BW

the fourth decline in the last five months. Bookings in January and February are running below the fourth-quarter average. A plunge in aircraft orders accounted for much of the February drop, in addition to weakness in the auto industry, as Detroit strove to reduce inventories. Excluding the transportation sector, bookings rose 0.7% in February, but the quarterly level is still below that of the previous quarter.

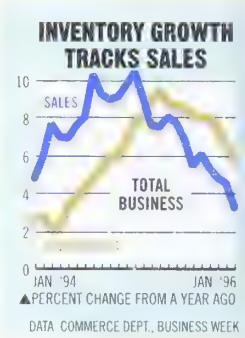
MOST IMPORTANT, while consumers may still have a positive attitude, they are nevertheless getting squeezed by heavy debts. They also continue to be concerned about jobs, despite the big February surge in payrolls, which looks increasingly like an aberration.

Consumer confidence edged lower in March, says the Conference Board. The index dipped to 97.7 from 98 in February. While the level is still consistent with continued spending, the Board says job and income worries suggest that households are not about to go on a buying spree. Indeed, surveys of retail activity through Mar. 23 show that March sales are running below February's, even though Easter sales should be evident by now, since the holiday is early this year.

Against the recent surge in mortgage rates, the current strength in homebuilding is likely to fade later this spring. Housing looks sturdy right now because of low rates in December and January. Sales of existing single-family homes jumped 6.5% in February, the largest monthly increase in more than three yea

Because of reporting lags, March and April hor buying should hold firm, but activity will diminis Mortgage applications to buy a home have dippe and refinancing volume has crashed by 50% in only t last few weeks. Higher rates will hit builders at time when the inventory of unsold new homes is ne the high levels reached in the 1980s.

Inventories generally will continue to be a drag on growth. Business inventories rose in January and sales fell, reflecting weather disruptions, but the annual trends show that stockpiles are still growing much faster than sales (chart). The yearly pace of business sales leads inventory growth by about nine months. Without a sudden surge in demand, which seems unlikely, that mea many companies will remain under pressure to redu inventories in coming months.



Given trends like these, a sustained rebound in pr duction, hiring, income, and spending seems unlike That's the bad news. The good news: Later this ye lower interest rates will be on the way to feed ec nomic growth into 1997.

ARGENTINA

A REBOUND? YES. SPECTACULAR? NO

Following last year's severe recession, Argentina was counting on a solid turnaround by early 1996. But the recovery will be slow and unspectacular.

Real gross domestic product declined 4.4% last year, worse than the 3% drop expected by the government. Economy Minister Domingo Cavallo says GDP likely fell in the first quarter but will expand by 5% for all of 1996. Private forecasts put 1996 growth between 1.5% and 3.5%, with inflation at about 2%.

Recent developments brighten the outlook. Cavallo and President Carlos Menem resolved the latest in a long-running series of squabbles, calming market worries that Cavallo might be forced out. Cavallo opposed a new council of business and union leaders that will propose ways to combat Argentina's 16.4% unemployment. Now, the council will act in an advisory capacity, with little real power. Still, the Menem-Cavallo feud has chilled long-term investors uneasy with the idea of an Argentina without Cavallo, considered the architect of economic stability.

Growth prospects also improved on Mar. 20, when the government used special tax-cutting powers granted by Congress to halve the 21% value-added tax on consumer and mortgage interest. Menem hopes the cuts will spur industrial output, down 10% in the year ended in February (chart). The cut will also help the job-creating construction industry, which shrank by 5.9% last year.

Some hurdles remain, though. The tax cuts should lift growth, but they will cost the government income. That raises doubts about Argentina's target of $2.5 billion for its 1996 fiscal deficit, from $2.6 billion in 1995. Banks have regained slightly more than the $8 billion in deposits lost after Mexico's financial crisis, but new loans remain scarce. And income has dropped as businesses cut back on overtime. As a result, Argentine consumers, who fueled the 7.5% annual GDP growth from 1991-94, are unlikely to start spending again until they see bigger paychecks or better access to loans.

By Ian Katz in São Paulo

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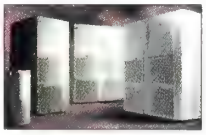

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AUTOS

TROTMAN'S TRIALS

The Ford chief's reorganization is sputtering, and he needs a successor

These are trying times for Alexander J. Trotman. The Ford Motor Co. chairman's year-old sweeping global reorganization is getting an overhaul, causing widespread confusion and anger among employees and suppliers. Sales of the redesigned Taurus remain lackluster, even with a $600 rebate. Then there's the vexing question of what to do about Mazda, the troubled Japanese auto maker in which Ford has a 25% stake. Now, Trotman has something else to worry about: finding a successor.

As Trotman struggles to entice price-wary buyers and jump-start his reorganization, sources close to the board say he is under growing pressure from directors on the succession question. The issue has become so hot that one Ford senior executive even recently risked the ire of the often-authoritarian Trotman, who turns 63 in July, by giving him a nudge. A source close to Ford says the exec told Trotman: "Alex, you've only got two years left. Every month you wait is 5% less time you'll have to train a successor."

Trotman's No.2 executive, Edward E. Hagenlocker, 56, is out of the running. Sources close to the board say Hagenlocker is destined for the vice-chairman's job, a position Ford traditionally uses to ease senior executives into retirement. Trotman's path to the top was cleared in 1992 when his chief rival, Allan D. Gilmour, was named Ford vice-chairman. Gilmour ultimately took early retirement after Trotman became chairman and CEO on Nov. 1, 1993. Hagenlocker is taking the blame for the rocky implementation of Trotman's Ford 2000 global reorganization. In any case, Ford's board has never viewed Hagenlocker, a shy intellectual, as dynamic enough to be CEO. A Ford spokesman declined to comment on Hagenlocker's future.

CONTENDERS. Group Vice-President Jacques A. Nasser, 48, appears to be the fastest climber among Ford's senior executives. Insiders see him as odds-on favorite to eventually succeed Trotman. CFO John M. Devine, 51, is also considered a candidate. Nasser, a blunt-talking Australian who loves fast cars and fine clothes, is a favorite of Trotman and the board. He also won over Wall Street analysts with a recent all-day session in Dearborn, Mic where he promised his new glo product-development organization linchpin of the Ford 2000 global reor nization, will slash $11 billion in co over the next five years.

Nasser has managed to escape bla for Ford 2000's problems par because he was not an architect of original plan. Hagenlocker may be t ing a fall because he was. After mov 15,000 employees into five worldw product-development centers last ye Ford is reversing itself and return to a setup similar to its original one. this summer, insiders say, Trotman w pare the product-development u down to three centers. Having many centers, Ford found, led to du cated work and turf battles. "Our or nization needs to evolve...to achie our ambitious goals," says Nasser.

The reorganization of Ford 2000 l left employees bitter. "People are w dering who they work for," says a c sultant to Ford. "There's a widespre perception that things are out of c trol." Uncertainty is heightened by l

SHIFTING GEARS *Ford Chairman Alex Trotman is triggering his s*

SUCCESSION With the Ford board anxious to have a succession plan, Trotman's No. 2, Edward Hagenlocker, is likely to be made a vice-chairman—a post that traditionally has no future at the company. That makes room for Jacques Nasser, group vice-president for product development, who is the current favorite to replace Trotman.

ORGANIZATION As part of his l 2000 initiative to refocus the co on global markets, Trotman last moved more than 15,000 emplo into five worldwide product-deve ment centers. Now, he's backtra Ford is paring back to three cen setup similar to the one it had p Ford 2000.

fears, since Ford says it plans to n its engineering ranks by 21% by end of next year, mostly by axing side contractors. And suppliers nplain that they don't know who to on at Ford as it reorganizes its rganization. "You can't find anybody more," grouses one. "All you ever is voice mail."

Despite the turmoil, Trotman's are, for now, seems secure. He has naged to stay out of deep trouble h the board and the Ford family, rces close to the situation say, large-because he prepared them to expect nsition problems with Ford 2000. family remains concerned about the company will adapt to Trot-n's changes but seems willing to e him room to prove himself. "The rd family is fully supportive of Alex tman," says Edsel B. Ford II, a rd member and president of Ford tor Credit Co. "We are very pleased h the progress of Ford 2000."

t doesn't hurt that Ford's stock ce has climbed to around 34, from 28 January. It will take longer—six months, at least—for profits to spring back to life. Analysts figure earnings will fall 75% in the first quarter, to $327 million, as Ford struggles with the cost of launching new models and offering extensive rebates. There is little chance the company can abandon the incentives, given Taurus' slow sales. And there are other signs the rebates aren't working as well as expected, including the worrisome news that a generous $1,000 giveback on Ford's Windstar isn't drawing many customers from Chrysler Corp.'s minivans.

MARKETING MAN. Meanwhile, Trotman has other problems, chief among them Mazda. Under Ford 2000, Mazda is losing its important role of developing small cars for Ford. That job, which many viewed as the essential glue in the Ford-Mazda partnership, is being taken over by Ford's European product-development center. Finding a buyer for Ford's stake in Mazda would be tough: It lost more than $1.1 billion in its past two fiscal years and hopes only to break even in the fiscal year ending Mar. 31.

Trotman pledges to stick with his Japanese partner. "We've had a close relationship over the past 20 years, and we'll have more of the same," he says. Exactly how that relationship will evolve, Ford and Mazda aren't saying. But industry analysts speculate that Ford will take a firmer hand in reshaping Mazda into a maker of mass-appeal models and less a purveyor of trendy niche cars such as the Miata sports car. Some even say Ford's top executive working inside Mazda, Henry D.G. Wallace, could become Mazda's CEO.

Back home, Trotman is doing plenty of management shuffling. He moved to boost sales in the sagging Lincoln-Mercury Div. on Mar. 25 when he promoted James G. O'Connor to vice-president in charge of the unit. The glib O'Connor, 53, just finished overseeing Ford's big push into the hot Brazilian market and is expected to bring fresh marketing flair to Lincoln-Mercury's faded brands, which suffered a 9.2% sales decline last year. Ford sent O'Connor's predecessor, Keith C. Magee, 49, to Europe as vice-president for sales and marketing there.

But it will take more than a management shakeup to get Ford's house in order. Trotman has to keep his reorganization on track. If he doesn't, the board could speed up the search for his replacement.

By Keith Naughton in Detroit

the key elements of his plan:

Trotman must decide whether sell Ford's 25% stake in Mazda a more active management role ng the troubled Japanese auto Meanwhile, even though Mazda developed many of Ford's rs, now, as part of Ford 2000, pany plans to do the job itself e.

PRICING Ford has had to slap $600 rebates on its cars and trucks. That has helped keep the Taurus No. 1, but the model's sales lag last year's pace. Trotman is counting on Ford 2000 to cut development costs by $11 billion over five years, enabling Ford to keep prices down.

NO ACCELERATION: *Taurus sales have been lackluster—and minivans are disappointing, too*

NEW CEO: *Analysts praised Amelio fo taking his medicine in one gulp. But will customers stick with the compan*

COMPUTERS

APPLE'S BUMPER CROP OF BAD NEWS

Its $700 million loss for the quarter has customers rattled

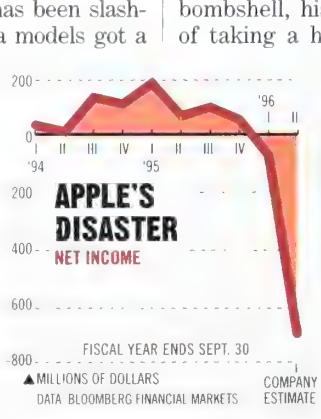
Walter F. Manley was stunned. When told that Apple Computer Inc. had announced on Mar. 27 that it would post a $700 million loss for its second fiscal quarter, the president of computer dealer First Step Computers in Richmond, Va., went stone-cold silent. Finally, he sucked in his breath and gasped: "That's huge. I'm astonished." Like many others, he figured on a deficit of $200 million or so.

Wall Street, used to bad news from Apple, was less easily shaken. Just seven weeks into the job, CEO Gil Amelio will write off more than $350 million in inventory and take a further $175 million in restructuring charges, on top of some $175 million in operating losses for the quarter ending Mar. 31. Still, Apple shares rose 1⅜ on the news, to close at 25¾, as analysts praised Amelio for taking his medicine in one big gulp.

READY TO RUN. Customers are apt to be less sanguine. With Apple's sales expected to slide to $2.3 billion, down from $2.6 billion in the corresponding quarter last year, corporate buyers and consumers are putting off Mac purchases. "There's no question Apple has a demand problem in the short run, partly due to the negative publicity they've had," says Ed Anderson, president of CompuCom Inc., a Dallas dealer. Some clients are already planning to defect. "Unless it does something major, it's going to be tough for Apple to keep its foothold here," says Stephen A. Archuleta, director of computer-information services at U S West Inc.

The news isn't likely to get better soon. Experts say Apple's woes will drag on, with a $90 million loss expected for the quarter ending in June and a further, smaller loss for the year's final three months. "It's not a foregone conclusion that this is going to get turned around," says Dean Witter Reynolds analyst Eugene Glazer, who thinks Apple will need hot new products and a big shift in consumer confidence to post profits even late in the year.

The PC industry's slowdown won't help the company. Apple has been slashing prices—some Performa models got a 12% cut in February, for example. But with Compaq Computer Corp. and other rivals slashing prices by up to 20% to hawk their own excess inventory, Apple could be forced to lower its prices even more. Hambrecht & Quist analyst Todd Bakar figures PC prices will dive 30% in the first half of the year—about twice the normal falloff. Says Bakar: "Apple c still recover, but the overall landscape a lot tougher than it was a year ago.



What's Amelio's recovery plan? N sifting through a comprehensive revi of Apple operations, he plans to a nounce Apple's future strategy in ea May—after conferring with manage to hone the details. Possibilities inclu farming out more manufacturing to lo er costs and focusing on feature-hea pricier Macs to boost profits. "We wa to simplify our product line and focus markets where we have the technolo to have best-in-class products," sa new chief administrative officer Geor Scalise. One probable move: a more a gressive effort to license the Mac op ating system to outside companies easing licensing terms.

"I'M GAME." While none of these tact is likely to stem the near-term pa few on Wall Street are ringing serio alarm bells. Despite the losses, App doesn't face an imminent cash cris "The write-offs do raise some questio but we're going to keep watching," sa Martha Toll-Reed, an analyst at Sta dard & Poor's. Based on news of t loss, S&P has increased the likelihood will downgrade Apple's credit standi Amelio must also refinance some $4 million in debt that matures in Mar and April, Toll-Reed points out.

Still, if Amelio can make this the la bombshell, his clear-the-decks strate of taking a huge initial loss could p off. Many customers a standing pat. "I'm ga to give Gil Amelio chance," says Donald Montabana, director the University of Pen sylvania's Computi Resource Center. Ga for now, anyway.

By Peter Burrow with Kathy Rebello, San Francisco a Gary McWilliams Houston

OLDEN BOY AT IG BLUE

m Palmisano's mission: Get the PC business roaring again

amuel J. Palmisano doesn't lack for advisers. The new general manager of IBM's Personal Com- er Co. says he has already been amped with phone calls and E-mail m friends and associates inside the npany offering all sorts of unsolicited vice. He's even getting help at home. wife has detailed her experience calling in to IBM's help desk. His 14- l 12-year-old boys—the oldest of four s—have told him they think his new is "cool," but that he should spend ne time working on IBM PC speed l connectivity.

Not that Palmisano can't manage on own. The 44-year-old executive spent past three years building IBM into world's leading computer-services vider. By the end of 1995, services enue had skyrocketed to $12.7 billion, from $7.6 billion in 1993. Last year, division's sales grew by 31%, making business of integrating and running nputer systems for other corpora- ns the second-largest behind hard- re at the $72 billion giant. Says for- r IBM Chief Financial Officer Jerome York: "Palmisano did one hell of an standing job."

Palmisano's reward: On Apr. 1, the year IBM veteran steps into one of toughest and most visible jobs in computer industry, running IBM's billion desktop-computer unit. It's oller-coaster business. After a disas- us 1994—IBM lost $1 billion in PCs because of product delays and bloated inventories—the company managed to squeeze out a $100 million profit last year. Ominously, though, IBM's share of the PC market continued to slide even in a period of double-digit growth. Last year, Big Blue captured 8.2% of the worldwide business, down from 8.7% in 1994 (chart).

RISK TIME. Taking on a struggling business doesn't bother Palmisano, a hands-on manager who routinely spent two days a month with his top managers reviewing the status of every IBM service contract worldwide. "I've got a lot of years to play. Now's my time if I'm going to do a high-risk job," he says.

IBM can't afford to lose in PCs. For one thing, sales of its desktop computers now surpass mainframe and minicomputer sales. More important, as corporations install networks of PCs and powerful PC servers, desktop hardware is a critical catalyst for the sale of other products and services. It's simple: For every dollar a company spends on PCs, it shells out $4 on things such as help-desk services, training, and networking. "We're in every one of those businesses," says Robert M. Stephenson, the IBM senior vice-president who is Palmisano's new boss.

In the market for an executive who could deal with multiple technologies and product lines, Stephenson didn't hire an executive search firm to look for an outsider for the PC company job. Palmisano was an obvious candidate. He has risen quickly through a succession of positions inside IBM, including the launch of IBM's successful AS/400 minicomputer and had a stint as executive assistant to former CEO John F. Akers—a post reserved for rising stars. Says consultant Frank Dzubeck: "Sam's got a bullet with an arrow going up next to his name."

YOUNG VETERAN
At 44, after 22 years at IBM, Palmisano will take charge of a $10 billion unit, one of the industry's toughest jobs

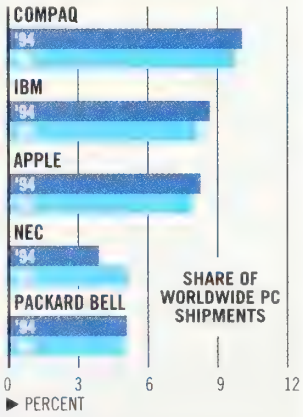
An unknown in the clubby PC industry, Palmisano spent the early 1990s in Japan helping IBM bring out the popular ThinkPad laptop computer. As IBM's computer service chief, he worked with scores of companies to cut computing costs and apply technology effectively. "He understood the cost and competitive pressure our company was under," says Mark Essig, executive vice-president of AK Steel, which hired IBM to run its computer operations in 1993. Adds Chris Goodhue, a PC analyst at Gartner Group Inc.: "It's all about getting closer to the customer and helping them manage their business. IBM is bringing somebody to the PC company that understands the importance of that aspect of the business and how to make money there."

There's plenty to be done. IBM needs to update its laptop technology and take a larger share in computer servers from market leader Compaq Computer Corp. And in a business with new-product cycles coming every six months, there's everything from logistics to product development to worry over. "Any hiccups and you're hurting," says an insider.

Palmisano says that it's not in his nature to dwell on the risks: "It's the challenge that's absolutely exciting." If that's the case, then Palmisano certainly won't find his new job dull.

By Ira Sager in New York

BATTLE ROYAL



DATA: INTERNATIONAL DATA CORP.

BRITAIN

MAD COWS– AND MAD POLITICIANS

How the government turned the crisis into economic calamity

With the whole world watching, the government of British Prime Minister John Major is turning a grave public-health worry into a management disaster that is leading to a major economic crisis. On Mar. 20, the government announced a connection between mad cow disease, or bovine spongiform encephalopathy (BSE), the brain malady that has plagued Britain's cattle for a decade, and the always fatal human form of the ailment, Creutzfeldt-Jakob disease (CJD), stating that 10 victims apparently got the ailment after eating contaminated beef. Then, on Mar. 25, the bureaucrats backpedaled. "It isn't the cows that are mad, it's the people that are going mad," says Stephen Dorrell, Secretary of State for Health and leader of the government crisis team. "I eat beef, and I let my children eat beef."

No sale. With millions of consumers shunning British beef, the European Union banning its export, and fast-food chains such as McDonald's and Burger King dropping burgers from their menus, Britain faces its worst economic catastrophe since the pound had to be bailed out by the International Monetary Fund in 1976. Major's government, meanwhile, faces a widening credibility gap with voters that could prove fatal in upcoming elections. "The government has handled this matter with mind-boggling incompetence," says Labor Leader Tony Blair.

HUGE FALLOUT. The markets already are meting out their punishment, with stock and bond prices falling in London and sterling slipping against the German mark and the U.S. dollar. The worry: that Britain's economy will suffer extensive damage. The beef industry is likely to lose all $900 million worth of its export trade, swelling Britain's trade deficit from $18 billion to as much as $32 billion. Consumers buying imported meat could pay $800 million more at the grocery, while the cost of importing cattle to start fresh herds could run to $3 billion.

There's more. If the government is forced to destroy cows to restore confidence in British beef, even a moderate culling campaign could require up to $5 billion in compensation to farmers. If the government opted to get rid of just one-fifth of dairy cows, the cost to import milk could reach $4 billion.

Worse, if the beef and dairy industries remain crippled for a year, as many as 100,000 people could lose their jobs, causing unemployment to jump from 7.9% to 8.2%. Inflation could shoot up from 2.7% to 4.6% because of higher pr es paid for imported food and shortag of domestically produced alternativ And Britain's gross domestic produ could drop by $14 billion, or 1%. In t end, the economic toll could climb to $ billion. Says Ian C. Shepherdson, a Lo don-based economist with HSBC Marke "There could be a meaningful, significa impact on the economy."

Behind the crisis is go ernment research identi ing a previously unkno variety of CJD that strik young people. Some 10 v tims contracted the disea and died during the pa two years, before th reached age 42. Two othe are still alive. The natu of their brain damage, t early symptoms, and t shorter incubation peri are all different from pr vious CJD cases. And e perts say the victims this new strain of c could number in the hu dreds of thousands and val AIDS as a pandem Stephen Dealler, a medic microbiologist at Burnl General Hospital and B expert, says the number new CJD victims shock him. "It was so high, r jaw dropped," he says.

WRONG MOVES. The go ernment's missteps beg as early as 1979, when t Conservatives came power under Margar Thatcher. She deregulated agricultu practices so that farmers no longer h to follow strict rules for processing co meat and preparing feeds. Scientis now believe it was this relaxation th led to the use of diseased sheep in an mal feed, kicking off the BSE epidem and later on, lax enforcement of vario bans that allowed it to continue. Wors it wasn't until 1988 that ministers o dered the slaughter of infected cows two years after the outbreak.

Small wonder that since the mid-'80 160,000 BSE-infected cows have had be destroyed. If the same agent is al killing humans, there's more than a n tion's economy at stake.

By Paula Dwyer, with Julia Flyn and Heidi Dawley, in London

HUNG OUT TO DRY? *Britain's beef industry could grind to a halt*

THE PRICE OF BEEF

If British beef production is halted for one year and older dairy cows are destroyed, the results could include:

UNEMPLOYMENT The number of jobless would jump from 7.9% to 8.2%, assuming 100,000 beef-related jobs are lost

RENEWED INFLATION Pricey imported beef and a doubling of milk prices could raise the inflation rate from 2.7% to 4.6%

SLOWER GROWTH Britain's GDP could decline by 1%, or $14 billion, and its trade deficit could balloon from $18 billion in 1995 to $32 billion

POLITICAL INSTABILITY Prime Minister John Major's Conservative government, dependent on a strong economy to win reelection, could lose a spring, 1997, contest

DATA: BUSINESS WEEK, HSBC MARKETS

COMMENTARY

By Paul Raeburn

JUNK SCIENCE AND MASS HYSTERIA

The announcement that England's mad cow disease was implicated in 10 cases of a fatal human brain disorder has been met with understandable hysteria. The market for British beef collapsed, 100,000 farmers' jobs are in jeopardy, and the government is scrambling to defuse a crisis that could cause billions of dollars in losses.

But what is striking about the situation is how starkly the decisive public reaction to the crisis contrasts with the cautious language in the announcement. Scientists said consumption of tainted beef was "the most likely explanation" for 10 cases of a similar human illness called Creutzfeldt-Jakob disease—nothing more definite than that.

HAIR TRIGGER. The crisis is a telling example of a phenomenon occurring ever more frequently: A complex scientific debate is suddenly thrust upon an anxious public that is ill-equipped to understand it. Instant and ubiquitous communications, combined with the greater willingness of plaintiffs and government and industry leaders to go public with their scientific disputes, trigger concern. The core of real science gets overwhelmed by a flurry of "junk science"—conflicting statements by politicians, confusing press reports, legal depositions, even dueling ads.

The U. S. has its own examples. In recent weeks, Americans have watched in confusion as the makers of Tylenol and Advil wage a scorched-earth campaign in newspaper and TV ads over the safety of Tylenol when combined with alcohol. The manufacturer of Tylenol acknowledges that there is risk with high intake of both Tylenol and alcohol. But is there a risk for the casual drinker? Advil's advertising is forcing that question on consumers, when scientists themselves can't answer it. And Advil, too, has side effects—like aspirin, it can raise the risk of stomach bleeding.

Another case: the long-running dispute over the safety of silicone breast implants. In February, the largest study yet of the possible risks of such implants gave comfort to both sides in the dispute. Plaintiffs suing implant makers pointed to the study's finding of some risk; defendants emphasized that the risk was very small. The uncertainty remains.

In each of these controversies, a core of solid scientific information falls short of what's needed to resolve urgent questions facing the public. The economic and health consequences are enormous. With the stakes so high, powerful forces in government and industry are eager to shape the disputes. "This is tremendously difficult for the public to sort out. If scientists are disagreeing, what's the citizen to presume?" asks Paul Slovic, a psychologist at Decision Research in Eugene, Ore.

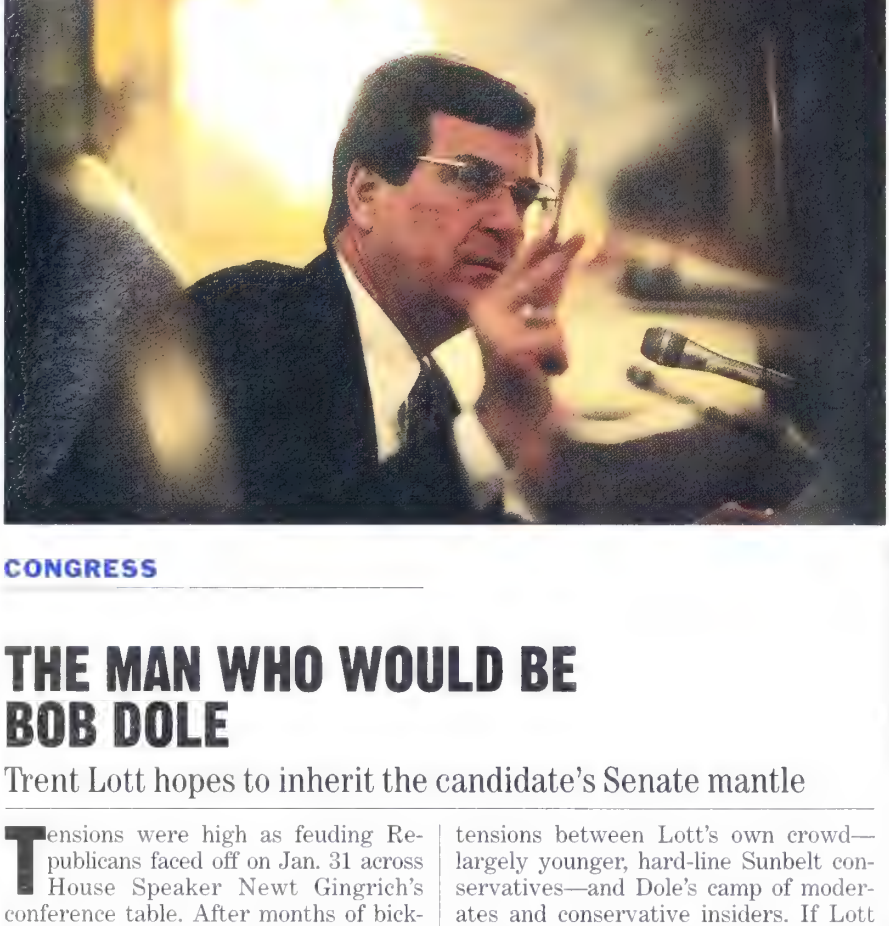
The real problem is the nature of scientific inquiry, which inevitably involves uncertainty. Researchers cannot say conclusively whether mad cow disease poses a risk to humans. They don't know the extent of the epidemic or how it can be stopped. Indeed, they can't even agree on the cause. The leading theory, advanced by Stanley B. Prusiner of the University of California at San Francisco, is that both the human and cattle diseases are caused by an unusual biological entity called a prion—a tiny scrap of protein without genes or any of the biochemical machinery bacteria and viruses require to do damage.

MANY DOUBTS. Prions act slowly, causing symptoms years or even decades after the infection is contracted. Mad cow disease isn't known in the U. S., but doubts arise again: Scientists can't be certain it isn't there. Other experts, such as Laura Manuelidis of Yale University, don't accept the prion theory. She thinks yet-to-be-identified, slow-acting viruses are responsible.

One lesson to be drawn from these public disputes is that governments shouldn't cut funding for basic research, which can help prevent tomorrow's crises. But the only real solution is for government and industry leaders to use scientific information responsibly. No more spectacles like the one last year when Britain's agriculture minister sought to reassure the public by feeding his 4-year-old daughter beef in front of television cameras. Unresolved scientific disputes have become a fact of modern life. Nothing else so clearly illustrates science's limits.

Raeburn is BUSINESS WEEK's senior editor for science and technology.

"This is tremendously difficult to sort out. If scientists are disagreeing, what's the citizen to presume?"



TRENT LOTT

Senate Republican Whip

BORN Grenada, Miss., Oct. 9, 194

EDUCATION University of Mississippi, B.P.A. (1963), J.D. (1967)

EXPERIENCE Administrative assistant to Representative William Colmer (D-Miss.), 1968–72; House of Representatives, 1973–89; Senate, 1989–. Leadership experience: Chairman of the Republican Party Platform Committee, 1980 and 1984; House Republican Whip, 1980 to 1988; Senate Republican Whip, 1994–.

PERSONAL Lives in Washington with wife Tricia and two children.

CONGRESS

THE MAN WHO WOULD BE BOB DOLE

Trent Lott hopes to inherit the candidate's Senate mantle

Tensions were high as feuding Republicans faced off on Jan. 31 across House Speaker Newt Gingrich's conference table. After months of bickering over landmark legislation to deregulate the telecommunications industry, Senate Majority Whip Trent Lott of Mississippi bluntly told his colleagues: "There's got to be a point when you close this thing." Twenty minutes later, Lott had forged a compromise that Congress overwhelmingly approved the next day. "Trent did a terrific job," marvels Senator Rick Santorum (R-Pa.).

Lott has been closing lots of deals lately. With Senate Majority Leader Bob Dole busy running for President, Lott—the No. 2 Republican—has become the Senate's chief traffic cop, troubleshooter, and head-knocker. His recent successes include House and Senate agreements on line-item veto powers, product-liability reform, and regulatory relief for small business. Lott's secret? "He's tireless in trying to bring together people whose views are not totally the same," says GOP Chairman Haley Barbour, a fellow Mississippian.

Helping Dole put legislative points on the board has not only bolstered the Kansan's White House bid but has enhanced the odds that Lott, 54, will become the next GOP Senate leader. But his ascendancy is intensifying intraparty tensions between Lott's own crowd—largely younger, hard-line Sunbelt conservatives—and Dole's camp of moderates and conservative insiders. If Lott gets the top job, it would symbolize a fundamental change among Senate Republicans from old-line moderation to the new, more activist conservatism already dominant in the House of Representatives. (Lott would have to prevail in a secret-ballot election that would be held in early December if Dole is elected President.)

DEFICIT HAWK. Lott has never been in Dole's inner circle. Instead, he is close to Senator Phil Gramm (R-Tex.), an erstwhile Dole rival for the Republican nomination. In 1988, he endorsed Presidential candidate Jack F. Kemp. And he won his leadership job in 1994 by toppling Dole pal Alan K. Simpson (R-Wyo.).

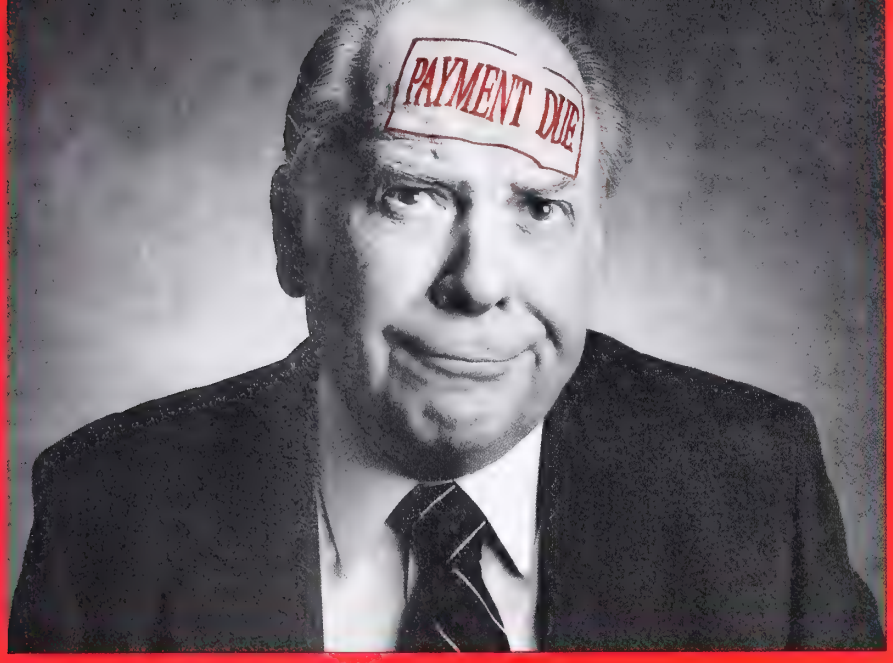
Managing conflict is a lifetime specialty for Lott, son of a shipyard worker and schoolteacher. He often tells the story of how, as a boy, he mediated family arguments between his parents, who later divorced. In 1968, after getting hooked on politics while attending the University of Mississippi, Lott joined the staff of Representative William M. Colmer, conservative Democratic chair of the House Rules Committee. When Colmer retired in 1972, his 31-year-old aide ran for the seat and won—as Republican.

Lott quickly rose to prominence one of Richard M. Nixon's vocal d fenders during House impeachme hearings. A leader of the GOP's conser ative Young Turks, he became Hou GOP whip in 1980, a post he held ur winning a Senate seat in 1988. Althou an outspoken deficit hawk, Lott h been a fierce defender of federal sper ing for defense and shipbuilding in l home state. "If people want to call th pork, I plead guilty," he says. But ira Democrats say Lott's appetite for po reveals a key political flaw. "It's t height of hypocrisy to say that you d liver for your state but to be agair spending in the rest of the countr says Democratic consultant Kiki Moo

Some Republicans gripe that Lot ambition can get the best of him. Crit complain that he at first promised not challenge Simpson, then revers course. "That's true," he admits. B when the GOP captured Congress, "t world changed," he explains.

In the coming race to succeed Do Lott and Senator Don Nickles of Ok homa are gearing up for battle: La year, their political leadership comm tees dispensed more than $150,000 GOP Senate candidates. Lott conced that "it's not healthy to campaign f Bob Dole's job when Bob Dole is still it." But the majority whip does ever thing with gusto, whether it's cutti deals or crooning as part of the Voc Majority, a quartet of senators th made its Kennedy Center debut la year. Lott, a deep bass, got rave r views for his performance. Now, it's h colleagues' applause he's seeking.

By Richard S. Dunha in Washingt



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HAZARDOUS TO YOUR WEALTH?

For investors, lawsuits cast a smoky cloud over the future

Was it a hiccup or a full-fledged smoker's hack? When Liggett Group Inc., the cigarette-manufacturing division of Miami's Brooke Group, broke ranks with the tobacco industry on Mar. 13 by agreeing to an unprecedented litigation settlement, the move sent cigarette stocks plummeting 13%. In just one week, $17 billion in market value was erased.

Stock prices have since steadied, but some shareholders are casting a more critical eye on their investments. In Florida, one of the six states suing the industry for reimbursement of smokers' health-care costs, Attorney General Robert A. Butterworth proposed on Mar. 20 that the state, which owns close to $700 million worth of tobacco stock, should put pressure on other tobacco companies to follow Liggett's agreement—and stop marketing aimed at teenagers. The day before, New York Comptroller H. Carl McCall had announced that he would become more active in monitoring the state's tobacco investment and would add no more tobacco shares to the state's discretionary investment funds.

LONG DECLINE. Ominously for big tobacco, New York's rationale had nothing to do with social responsibility and everything to do with stock volatility. "There are some who say the risks are already reflected in tobacco prices," says McCall, "but we think that the risk might expand." Such sentiments could encourage other investors of public money to reconsider their tobacco holdings. "The states sniff money coming out of tobacco, and this can only accelerate," says Peter D. Kinder of Kinder, Lydenberg, Domini & Co., which specializes in socially responsible investing.

Such talk could depress tobacco stocks over the long haul. But some long-term holders are hanging in there. Both Stephen Yacktman, who oversees tobacco investing at Chicago's Yacktman Asset Management, and Stephen O'Neil, senior equity trader for Arco's $2.5 billion fund, bought Philip Morris last week. "There's a core of people who understand this group well, and they have held these stocks for a long time," says O'Neil. Defending the purchase, Yacktman says: "Philip Morris is where you want to be."

Still, if tobacco's litigation woes continue, even steadfast supporters may consider kicking the habit.

By Nanette Byrnes in Los Angeles, with Lori Bongiorno in New York

TOBACCO

LEBOW'S MAYBE-MEN

His RJR board nominees won't commit to a Nabisco spin-off

Bennett S. LeBow has never equivocated: If RJR Nabisco Inc. shareholders back him in his proxy battle with the food and tobacco giant, he will immediately split its operations into two.

Now, as investors gear up for the tally of the vote at the company's Apr. 17 annual meeting, LeBow's pledge may be less of a sure thing. In depositions taken in January as part of a still pending civil action between RJR and LeBow, the outside investor's board nominees say they have not pledged that they would automatically vote for a Nabisco spin-off if elected as RJR directors.

The unsealed depositions, which were provided to BUSINESS WEEK RJR, indicate that only Rouben V. Ch alian, chairman of Liggett Group I had definitely committed to a break The others wouldn't make any prom es. "I have not guaranteed how would vote on any matter," Al Brown & Sons Managing Director B ry W. Ridings said in his depositi "I don't have the information yet t would fulfill the sort of obligation have as a director to make that sort decision." Ridings won't comment his current views of a spin-off.

KEY PROVISION. The depositions, wh show that the proposed board's inf mation on the spin-off came mostly fr newspaper accounts and analyst repo were taken just two months af LeBow's Brooke Group Ltd. promi that the board "would be committed effecting an immediate tax-free spin of Nabisco." Robert F. Sharpe Jr., g eral counsel at RJR, says: "LeBo statements on their commitment completely at odds with their testi ny." RJR Chief Executive Steven Goldstone has argued repeatedly t the time isn't right for a split of tobacco and food units.

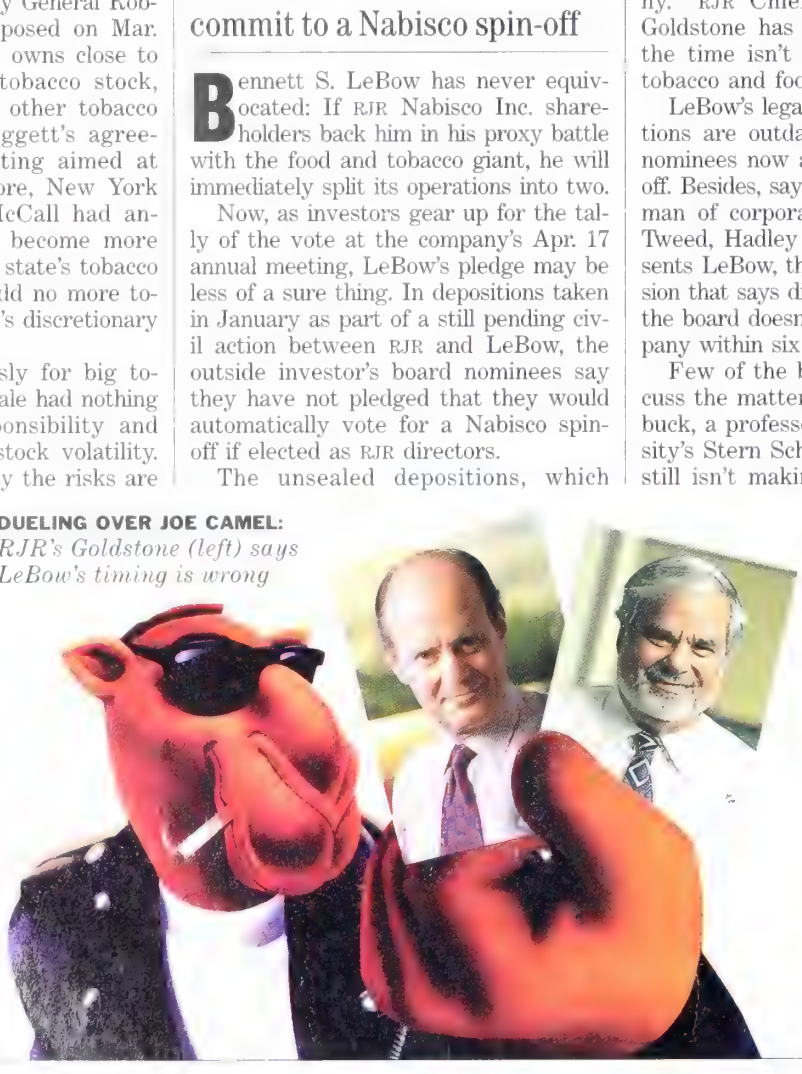
LeBow's legal counsel says the dep tions are outdated and that the bo nominees now are committed to a sp off. Besides, says Larry Lederman, ch man of corporate practice at Milba Tweed, Hadley & McCloy, which rep sents LeBow, the proxy contains a pr sion that says directors can be replace the board doesn't agree to split the c pany within six months of being elect

Few of the board nominees will cuss the matter. But one, William St buck, a professor at New York Univ sity's Stern School of Business, says still isn't making promises. "Based the information have right now, immediate spin-off very desirable," St buck says. But wouldn't be intellig for anybody to s 'I'm going to do t regardless of wha find out later.'"

There's a chanc even if it's slim—t LeBow could win proxy fight. But less he persuades would-be directors do what he wants might prove a poi less victory.

By Lori Bongio in New York

DUELING OVER JOE CAMEL: *RJR's Goldstone (left) says LeBow's timing is wrong*



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[1] THE STANDARD & POOR'S 500 INDEX IS AN UNMANAGED INDEX OF COMMON STOCKS CONSIDERED REPRESENTATIVE OF THE BROAD MARKET. THE 15-YEAR PERIODS (21 IN ALL) ARE BASED ON TOTAL RETURN FROM 1/1/61-12/31/75, TO...1/1/81-12/31/95.

[2] MONEY MAGAZINE'S REFERENCE TO THE INVESCO INDUSTRIAL INCOME FUND IN ITS FEBRUARY 1996 ISSUE BASED ON A MORNINGSTAR ANALYSIS OF AVERAGE ANNUAL RETURN WHICH RANKED THE FUND #21 OF 180 TOTAL RETURN FUNDS FOR THE 10-YEAR PERIOD ENDED 1/1/96.

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COMMODITIES

BIG STINK IN CHEESELAND

Kraft rejects charges it manipulated the Green Bay exchange

LAUGHING COW Improper trading on the National Cheese Exchange "has been an inside joke for many years," says farmer Mielk

Even for Green Bay, Wisc., the weekly opening of the National Cheese Exchange is a decidedly low-key event. Each Friday morning for half an hour, in a room in a nondescript office building, traders mill around a cheese wall of fame—pictures of the industry's big cheeses. The traders sip their coffee and call out bids on cheddar barrels and 40-pound blocks. Trades are recorded by hand, in magic marker, on a big board.

Despite the market's relaxed style, cheese is serious business in a state whose residents are known as Cheeseheads. Now, some of them say something stinks in their cheese market—and it involves Kraft Foods Inc. State investigators have accused the giant Philip Morris Cos. unit of manipulating the tiny Green Bay market.

"VELVEETA-GATE." In a 265-page report commissioned by Wisconsin's Agriculture Dept. and released on Mar. 19, two University of Wisconsin economists sharply attacked Kraft's handling of its cheddar merchandising. Local press is calling the controversy Velveeta-gate, and Wisconsin legislato want the U. S. Justice Dept. to investig te.

From 1988 to 1992, Kraft on occasion would force exchange prices lower by selling cheese even when its inventories were tight, the report alleges. As prices fell, Kraft benefited because its dairy contracts were pegged to exchange prices. Every 1¢ drop in the benchmark exchange price lowered Kraft's costs by more than $10 million annually, the report says.

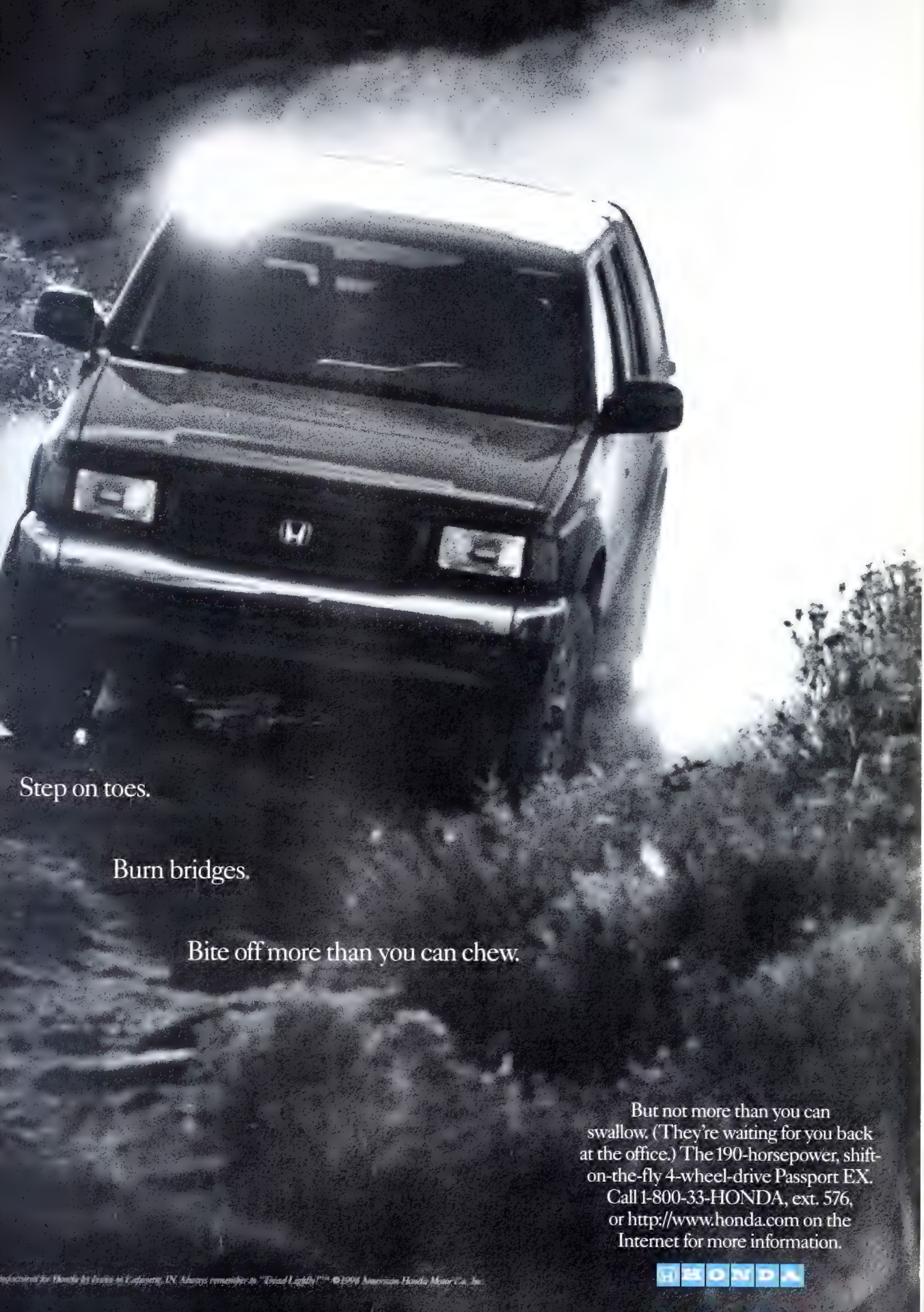
To put it mildly, the conclusions grate on Kraft. "I get emotional. It is a piece of crap," thunders Kraft President John D. Bowlin, who oversees the company's $2.7 billion cheese business. Bowlin says state investigators based their deductions on faulty data and outdated inventory information. The company's actual inventory levels, which varied considerably from projections, matched up rationally with Kraft's trades, he claims. And while Kraft accounted for as many as 90% of exchange sales during the period under investigation, Bowlin says that stemmed from a legitimate strategy: Kraft deliberately contracted for more cheese than it needed in order to avoid running out, then sold part the excess through the exchange. F its part, the exchange supports Kraf position, saying no player manipulat prices. The professors say they sta by their findings.

GIANT PRICE SWINGS. Suspicious dai farmers see holes in Bowlin's protest tions. Manipulation of the Natior Cheese Exchange "has been an insi joke for many years," sa Hugo Mielke Jr., a third-ge eration dairyman in Mario 50 miles from Green Ba Mielke and others are fru trated by cheese prices th sometimes swing up or dov nearly 50% in a single ye Farmers' profit margins a pared so thin that wh cheese prices fall sharply, ev simple pleasures become e travagances: "You don't go that Friday fish fry," Miel moans.

Kraft could fare perfectly well if didn't use the exchange at all. T mammoth company has enough ba gaining power to negotiate rates wi dairy co-ops. But Bowlin says t cheese exchange is more efficient. "I the only mechanism we have right no and we think it works," he says. I deed, several other small-scale marke operate in the same way for other co modities. Butter trades once a week the Chicago Mercantile Exchange, wi bids and offers posted on a chalkboa directly beside the bustling stock-ind futures pit.

The cheese market cou eventually modernize. new computerized tra ing system may be intr duced this year, and could lead to expand use of the Nation Cheese Exchange. Mea while, New York's Co fee, Sugar & Cocoa E change trades a chedd futures contract. B Green Bay is still t Big Cheese—even if i hostile turf for Kraft.

By Greg Bur in Chica



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COMMENTARY

By Joan O'C. Hamilton

DAVID PACKARD: SILICON VALLEY'S CLASS ACT

Hewlett-Packard Co. is one of the most dramatic success stories in American business. Bill's and Dave's garage, as it is known around Palo Alto, Calif., is the designated birthplace of Silicon Valley. There, in the 1930s, Stanford University engineering school chums David W. Packard and William Hewlett formed a company to make test equipment. Eventually, Hewlett-Packard brought out all manner of instruments, from calculators to computers to medical devices, such as the monitor that tracked my daughter's heartbeat in the hours before she was born.

Today HP has revenues of more than $31 billion and employs some 100,000 people—including my husband. That connection means I generally have to recuse myself from writing about the company. But the death of David Packard on Mar. 26 at the age of 83 isn't an occasion that calls for objectivity. It's a chance to consider the impact one decent and successful individual can have on the world.

Packard and Hewlett were well-known for working in short-sleeved shirts in their spartan, linoleum-floored offices. The deep respect and concern for employees they called "the HP way" now is synonymous with corporate integrity. But what's little known is the degree to which HP's founders gave back, through philanthropy, the money they made.

CONFIDENTIAL. As a cub reporter on *The Stanford Daily* in the early 1980s, my first job was to cover the monthly meeting of the university's board of trustees. Each month, I was reminded that I must keep confidential the section of the agenda in which anonymous gifts to the university were noted. Often, such contributions had come from Packard, Hewlett, or their personal foundations. I always wanted to write about it. I would invariably be told, "No, thank you." The donors did not wish any publicity.

By the time I became a business reporter, Hewlett's and Packard's fortunes had grown so large, as had their gifts, that it became impossible for them to avoid publicity about either, although they never sought it. Officials reckon the two have given Stanford more than $300 million—an amount nearly equal, when adjusted for inflation, to the $25 million founding gift of Jane and Leland Stanford. Their money has supported dozens of young faculty members in science and engineering in addition to cutting-edge facilities. University officials say the pair usually gave these funds to honor the memory of Stanford engineering professor Frederick Terman, who they felt launched their careers.

A WEALTH OF CAUSES

The public is most aware of Packard's $40 million gift to found the Monterey Bay Aquarium, but in all, he gave away about $1 billion

Hewlett, up in years and in fragile health, prefers to remain out of the spotlight. As for Packard, the public is probably most aware of the $40 million he gave to found the wondrous Monterey Bay Aquarium, run by his daughter Julie. But he did much more: Packard's 31-year-old private family foundation has to date dispersed $480 million to good causes. They range from marine biology research, training child-care providers, and endowing professorships at universities to preserving historical film stocks in Hollywood and helping digitize the Library of Congress.

What's more, Packard's aides say that he gave roughly the same amount personally, and often quietly to a similar set of causes. He launched, for example, a world-class Children's Hospital at Stanford in memory of his late wife, Lucile. The 9% of HP stock Packard personally owned upon his death, now worth about $4.3 billion, is all going to his family's foundation, which will make it one of the richest in the U.S.

OPINIONATED. The high-tech landscape Packard helped map has spawned its share of overnight millionaires. But too many of them seem intent on living out a stereotype of techno-fame, talking trash about rivals, hosting flashy parties, and collecting showy cars and trophy girlfriends. Their charisma can be captivating, their tantrums legendary. But their companies' overtures to public service invariably seem tied to press releases.

Packard wasn't shy. He could be cranky, and he was certainly opinionated. When Silicon Valley leaders threw in their lot with Bill Clinton in the last Presidential election, Packard, a lifelong Republican, fired off a letter suggesting they had all been caught in the "updraft of Bill Clinton's hot air balloon." But he was a class act. I clearly remember seeing his tall, thin frame slipping into functions quietly, always solicitous of Lucile. "You shouldn't gloat about anything you've done; you ought to keep going and try to find something better to do," he told employees in 1993, when he stepped down as HP's chairman.

Now, there's a legacy.

Hamilton has covered Silicon Valley for 16 years.

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$100,000		$250,000		$500,000		$1,000,000	
Male	Female	Male	Female	Male	Female	Male	Female
11.50	11.40	18.75	18.55	35.42	35.00	68.75	67.92
11.50	11.40	18.75	18.55	35.42	35.00	68.75	67.92
11.50	11.40	18.75	18.55	35.42	35.00	68.75	67.92
11.50	11.40	18.75	18.55	35.42	35.00	68.75	67.92
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11.50	11.40	18.75	18.55	35.42	35.00	68.75	67.92
11.80	11.60	19.38	18.96	36.67	35.84	71.25	69.59
10.25	11.80	20.42	19.59	38.75	37.09	75.42	72.09
10.67	10.09	21.46	20.21	40.84	38.34	79.59	74.59
11.17	10.59	22.71	21.46	43.34	40.84	84.59	79.59
11.67	11.34	23.96	23.13	45.84	44.17	89.59	86.25
12.25	11.67	25.21	23.96	48.34	45.84	94.59	89.59
12.84	12.25	26.25	25.21	50.42	48.34	98.75	94.59
13.59	12.67	27.71	26.25	53.34	50.42	104.59	98.75
14.25	13.00	29.38	27.30	56.67	52.50	111.25	102.92
15.35	13.34	31.05	28.13	60.00	54.17	117.92	106.25
16.50	14.00	33.13	28.96	64.17	55.84	126.25	109.59
17.84	14.67	35.00	30.00	67.92	57.92	133.75	113.75

MONTHLY RATES

Issue Age	$100,000 Male	$100,000 Female	$250,000 Male	$250,000 Female	$500,000 Male	$500,000 Female	$1,000,000 Male	$1,000,000 Female
48	19.25	15.67	37.50	31.05	72.92	60.00	143.75	117.92
49	20.84	16.92	40.00	32.71	77.92	63.34	153.75	124.59
50	22.75	18.34	42.92	33.96	83.75	65.84	165.42	129.59
51	24.67	19.67	45.84	36.46	89.59	70.84	177.09	139.59
52	26.92	21.00	49.17	39.38	96.25	76.67	190.42	151.25
53	29.34	22.67	52.50	42.30	102.92	82.50	203.75	162.92
54	31.84	24.42	56.67	45.42	111.25	88.75	220.42	175.42
55	34.92	26.25	61.88	48.75	121.67	95.42	241.25	188.75
56	38.34	28.25	67.30	52.30	132.50	102.50	262.92	202.92
57	41.67	30.34	73.55	56.46	145.00	110.84	287.92	219.59
58	45.50	32.75	80.21	61.46	158.34	120.84	314.59	239.59
59	50.09	35.34	88.34	67.30	174.59	132.50	347.09	266.92
60	55.67	37.84	97.71	73.55	193.34	145.00	384.59	287.92
61	62.50	40.34	109.17	80.42	216.25	158.75	430.42	315.42
62	70.34	43.34	121.46	88.75	240.84	175.42	479.59	348.75
63	78.75	46.92	135.42	98.55	268.75	195.00	535.42	387.92
64	87.75	51.34	150.84	109.80	299.59	217.50	597.09	432.92
65	96.84	56.17	168.13	121.88	334.17	241.67	666.25	481.25
66	106.17	60.84	187.30	131.46	372.50	260.84	742.92	519.59
67	115.17	65.50	207.30	141.46	412.50	280.84	822.92	559.59
68	125.17	69.67	229.59	152.09	457.09	302.09	912.09	602.09
69	137.17	72.92	257.30	159.59	512.50	321.25	1022.92	640.42
70	152.92	75.42	292.50	170.42	582.92	338.75	1163.75	675.42
71	171.34	82.42	332.92	187.30	663.75	372.50	1325.42	742.92
72	192.09	91.00	378.75	207.92	755.42	413.75	1508.75	825.42
73	215.50	102.09	430.21	234.38	858.34	466.67	1714.59	931.25
74	241.42	115.75	486.88	266.46	971.67	530.84	1941.25	1059.59
75	269.92	131.42	549.17	302.92	1096.25	603.75	2190.42	1205.42

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20	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
21	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
22	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
23	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
24	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
25	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
26	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
27	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
28	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
29	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
30	16.59	16.09	34.38	31.25	66.67	60.42	131.25	118.75
31	16.84	16.09	35.00	31.25	67.92	60.42	133.75	118.75
32	17.09	16.09	35.63	31.25	69.17	60.42	136.25	118.75
33	17.42	16.09	36.25	31.25	70.42	60.42	138.75	118.75
34	17.67	16.09	36.88	31.25	71.67	60.42	141.25	118.75
35	17.92	16.09	37.30	31.25	72.50	60.42	142.92	118.75
36	18.59	16.42	38.96	32.30	75.84	62.50	149.59	122.92
37	19.59	16.84	41.25	33.34	80.42	64.59	158.75	127.09
38	20.59	17.17	43.75	34.38	85.42	66.67	168.75	131.25
39	21.92	18.17	46.88	36.67	91.67	71.25	181.25	140.42
40	23.17	19.50	50.00	39.80	97.92	77.50	193.75	152.92
41	24.84	20.34	53.96	41.67	105.84	81.25	209.59	160.42
42	26.42	21.42	57.71	44.17	113.34	86.25	224.59	170.42
43	28.34	22.42	61.67	46.46	121.25	90.84	240.42	179.59
44	30.50	23.25	66.67	48.75	131.25	95.42	260.42	188.75
45	33.25	24.00	72.09	50.63	142.09	99.17	282.09	196.25
46	35.42	25.00	76.05	51.88	150.00	101.67	297.92	201.25
47	37.84	26.00	80.00	53.55	157.92	105.00	313.75	207.92

MONTHLY RATES

Issue Age	$100,000 Male	$100,000 Female	$250,000 Male	$250,000 Female	$500,000 Male	$500,000 Female	$1,000,0 Male	$1,000,0 Fe
48	40.42	27.50	84.80	55.42	167.50	108.75	332.92	21
49	43.17	29.42	89.59	57.92	177.09	113.75	352.09	22
50	46.50	31.67	95.00	60.42	187.92	118.75	373.75	23
51	49.34	34.00	101.05	64.59	200.00	127.09	397.92	25
52	52.25	36.34	107.09	69.17	212.09	136.25	422.09	27
53	55.42	39.34	113.75	74.17	225.42	146.25	448.75	29
54	58.50	42.34	121.88	79.38	241.67	156.67	481.25	31
55	62.25	45.67	131.67	84.59	261.25	167.09	520.42	33
56	68.34	49.50	140.21	90.42	278.34	178.75	554.59	35
57	74.34	53.50	149.38	97.71	296.67	193.34	591.25	38
58	81.34	58.34	158.96	106.25	315.84	210.42	629.59	41
59	89.59	63.34	170.42	116.25	338.75	230.42	675.42	45
60	99.50	68.34	183.55	127.30	365.00	252.50	727.92	50
61	111.84	73.00	204.17	139.17	406.25	276.25	810.42	55
62	125.92	78.42	226.67	153.75	451.25	305.42	900.42	60
63	141.17	84.92	251.88	170.63	501.67	339.17	1001.25	67
64	157.34	93.00	280.00	190.21	557.92	378.34	1113.75	75
65	173.67	102.00	310.84	211.46	619.59	420.84	1237.09	83
66	190.50	110.92	344.38	228.55	686.67	455.00	1371.25	90
67	206.67	119.84	378.55	247.09	755.00	492.09	1507.92	98
68	224.67	128.00	417.09	266.67	832.09	531.25	1662.09	106
69	246.34	134.59	464.38	284.80	926.67	567.50	1851.25	113
70	274.75	139.67	525.00	301.46	1047.92	600.84	2093.75	119
71	307.75	151.34	597.71	332.30	1193.34	662.50	2384.59	132
72	345.09	165.42	680.21	370.00	1358.34	737.92	2714.59	147
73	387.25	183.92	772.92	418.13	1543.75	834.17	3085.42	166
74	433.84	206.67	875.21	477.09	1748.34	952.09	3494.58	190
75	485.17	232.50	987.09	543.96	1972.09	1085.84	3942.09	216

Other amounts available upon request. Premiums are standard rates based on applicant's age at issuance of policy. Policies are non-cancellable as as premiums are paid. Premiums may be paid annually, semi-annually, and monthly bank draft only. (A no-cost medical exam may be required depe on age, health, or amount of coverage desired) Policies $100,000 and above, CE-82 Plus, Policy Form No. 80-RCT-79D, Graded Premium Level D Benefit to age 95. Premiums increase annually. Policies underwritten by The Old Line Life Insurance Company of America, A USLIFE Company, 707 E Eleventh Street, PO Box 401, Milwaukee, WI 53201-0401 (414) 271-2820. Established 1910. Over $45 Billion Dollars of Life Insurance in force. F A+ (Superior) by A.M. Best Company*. NOT AVAILABLE IN ALL STATES. Paid advertisement.

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ITED BY KELLEY HOLLAND

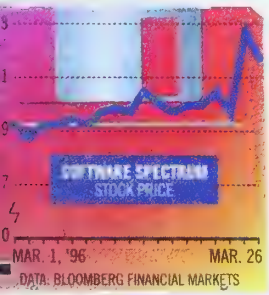
IE MOTHER OF ALL ALL MERGERS

E MALL OF AMERICA IS ut to grow. Simon Prop- y Group, developer of the omington (Minn.) mall, l DeBartolo on Mar. 26 nounced a stock deal rth nearly $1.5 billion. A rged Simon and DeBarto- the nation's two biggest pping-mall developers, l have 111 regional malls, community centers, and specialty retail centers in states. Simon Property's vid Simon becomes CEO at new company, to be ed in his hometown of In- napolis. Both companies nt public in the last three rs, but neither stock has e well in the depressed ail climate. DeBartolo will give Simon a stronger presence in the important Florida market. The new company could save $9 million in overhead.

CLOSING BELL

WIDER SPECTRUM

oftware Spectrum may be uying a money-loser, but it ill more than double its 000 customers. On Mar. 25, e company said it would uy software distributor gghead's corporate, govern- ent, and education division r $45 million. That will ake Spectrum the world's rgest reseller of PC soft- are and help it expand lobally. Wall Street liked the ove: In NASDAQ trading on ar. 25, the company's stock se $3, to 22.75, before rofit-taking pushed it back 21.75 on Mar. 26.



BANKS UNPLUG A POLICY LOOPHOLE

SCORE ONE FOR THE BANKS. On Mar. 26 the High Court ruled unanimously in favor of Barnett Banks, based in Jacksonville, Fla., deciding state regulators can't overrule a federal law allowing national banks to sell insurance in small towns. Bankers in many states have been using the loophole to sell insurance statewide—but Florida has a state law prohibiting insurance sales by banks. In the wake of the ruling, House Republicans are expected to amend a pending banking bill to allow linkups between banks and insurance companies.

REFITTING THE FAA

THE FEDERAL AVIATION ADministration finally joins the space age. The FAA, long criticized as slow-moving, on Apr. 1 plans to unveil sweeping reforms to make it fleeter of foot. FAA Administrator David Hinson aims to save $200 million during the next three years through staff downsizing and efficiency moves, and by halving the time it takes to get new gear for air traffic control, weather tracking, and flight planning into the field. It's about time: The number of Americans traveling by air, now 512 million, is growing 4% annually.

BILL: FRIEND OF THE EMPLOYEE-FRIENDLY

PRESIDENT CLINTON IS ANXIOUS about economic anxiety. So on Apr. 10, he will host 60 corporations at a White House event designed to promote good corporate citizenship. On the event's agenda is an awards ceremony for 10 exemplary companies and a how-to on such issues as establishing pension plans in small companies. For now, Clinton is eschewing proposing tax incentives or penalties built around corporate behavior toward employees. But sources say that could change once the Democratic Party meets its campaign fund-raising goal of $123 million, most of it from corporate donors.

HEADLINER: DONNA MOORE

A ZONE OF HER OWN

Donna Moore has her own playground—and it's a mess. As new president and CEO of Discovery Zone, she'll have free rein to clean up the company, which filed for bankruptcy on Mar. 25. The chain remains 49% owned by Viacom, though Viacom's chief, Sumner Redstone, and deputy chairman, Phillippe Dauman, left the board the day Moore got her job, giving her added freedom.

It won't be fun and games. She plans to close at least 30 of DZ's 300 stores. She will also spiff up the Spartan parent waiting rooms—adding muffins and cappuccino machines—modernize the game rooms, and update DZ's marketing. "A successful reorganization will address the problems caused by the company's rapid expansion and put DZ on a stronger financial footing," she said in a statement.

Before joining DZ in late 1994, Moore, 56, built Disney Stores from two locations to 150, and Williams-Sonoma from 17 to 80. She also helped revamp Laura Ashley's North American operations. Time will tell if playgrounds are easier to sell than flowered dresses.

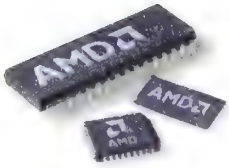
By David Greising

FAIR PLAY AT THE FIRM?

THE VERDICT IS IN. A FEDERAL jury on Mar. 22 ordered the Chicago law firm Katten, Muchin & Zavis to pay a former black associate $2.5 million in damages for alleged racial discrimination. Lawrence Mungin, a Harvard Law School graduate, charged that the firm paid him less than white associates, failed to assign him rewarding work, and didn't consider him for partner after 7½ years—as its policy required it to do. "The firm quite frankly was callous," says Abbey Hairston, Mungin's attorney. Michael Zavis, a partner at Katten Muchin, says there is "no factual basis" for the decision and vows to appeal.

ET CETERA . . .

- Inco launched a $3.3 billion takeover bid for Diamond Field Resources.
- New York police Commissioner William Bratton will join First Security Services.
- Northrop Grumman is cutting its military aircraft workforce by about 2,100.
- General Motors and EDS could announce by Apr. 1 the terms of their split-up.



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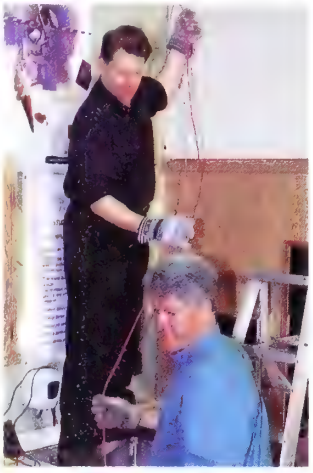
DITED BY OWEN ULLMANN

VILL SILICON VALLEY BECOME OLE COUNTRY?

our basic yellow-legal-pad kind of guy, Bill Clinton is hardly a technophile in the mold of Web-surfing Vice-President Al Gore. But during the 1992 campaign and rly in his Presidency, Clinton became the darling of Silicon lley by promising the high-tech industry everything from a rmanent research and development tax credit and boosts in chnology funding to a lifting of export controls on sophisated electronics. GOP-leaning tech execs, including Hewlett-ckard Co.'s John Young and Oracle Corp.'s wrence J. Ellison, ran to his side.

Nowadays, however, many high-tech CEOs ew the President more as a chump than ampion—a turnabout that gives Bob Dole opportunity to woo the Valley crowd back to e GOP. The execs fault the Administration failing to make the R&D credit permanent, ntinuing an export ban on powerful encryp-n software, not pushing harder for deficit duction, and—most important—vetoing a bill at would protect high-tech companies from volous shareholder suits. "There are a whole ries of issues where Clinton has not come rough," gripes Robert W. Holleyman, presi-nt of the Business Software Alliance. In-ed, federal records show a $1,000 contribution t year by Ellison to the Dole campaign, a nation Ellison now says he's unaware of.



WIRED: *Gore and Clinton get a school Internet-ready*

RPRISE VETO. The 72-year-old Kansas senator hardly a cybernaut, but he is attracting some gh-tech attention. Companies are backing a bill introduced Senators Conrad Burns (R-Mont.) and Patrick J. Leahy -Vt.) that would ease export controls on encryption soft-are, a move much coveted by the industry. "We were nned to find that one of the sponsors is Bob Dole," says nneth R. Kay, executive director of the Computer Systems licy Project, a group of computer industry CEOs.

Certainly, the industry had a strong incentive to check out Dole after Clinton's surprise veto of the securities litigation reform bill on Dec. 19. (Congress easily overrode the veto.) Valley companies, frequent targets of costly shareholder suits, had made litigation relief a litmus test. Clinton's veto decision left them feeling betrayed. High-tech consultant and Clinton fan Regis McKenna even fired off a vitriolic E-mail protest to the White House. The veto "caused us to wonder how valuable the high-tech industry really is to the Administration," says George H. Sollman, CEO of Centigram Communications Corp., a multimedia systems maker in San Jose. "Clinton handed Dole a huge opportunity."

NO GRUDGE. Industry leaders say it's too soon to tell how far Dole can ride this wave of discontent; he has been quiet on many tech issues so far. What's more, the Valley's oft-libertarian execs are spooked by Dole's rightward tilt on social issues and his recent call for corporate responsibility. Thanks to this "big anticorporate populist wave," says John Yochelson, president of the Council on Competitiveness, it's unclear if Dole is a better bet than Clinton.

Still, both sides crave bragging rights that come with the backing of America's fast-growth industries. Dole has tapped a high-tech adviser and visited a group of Valley CEOs earlier this year. And on Mar. 22, Democratic National Committee staffers queried high-tech investment banker Sanford R. Robertson about gathering 20 tech CEOs for a chat with Clinton. "He's trying very hard to win these people back," says Robertson. Both McKenna and Ellison are sticking with Clinton. "I think he is the best thing right now that is happening for the technology industry," he says. But glum Clintonites admit that view may be the exception. Getting the Valley back on board in '96 will be tough—especially for a yellow-pad President.

By John Carey, with Kathy Rebello, in San Francisco

CAPITAL WRAPUP

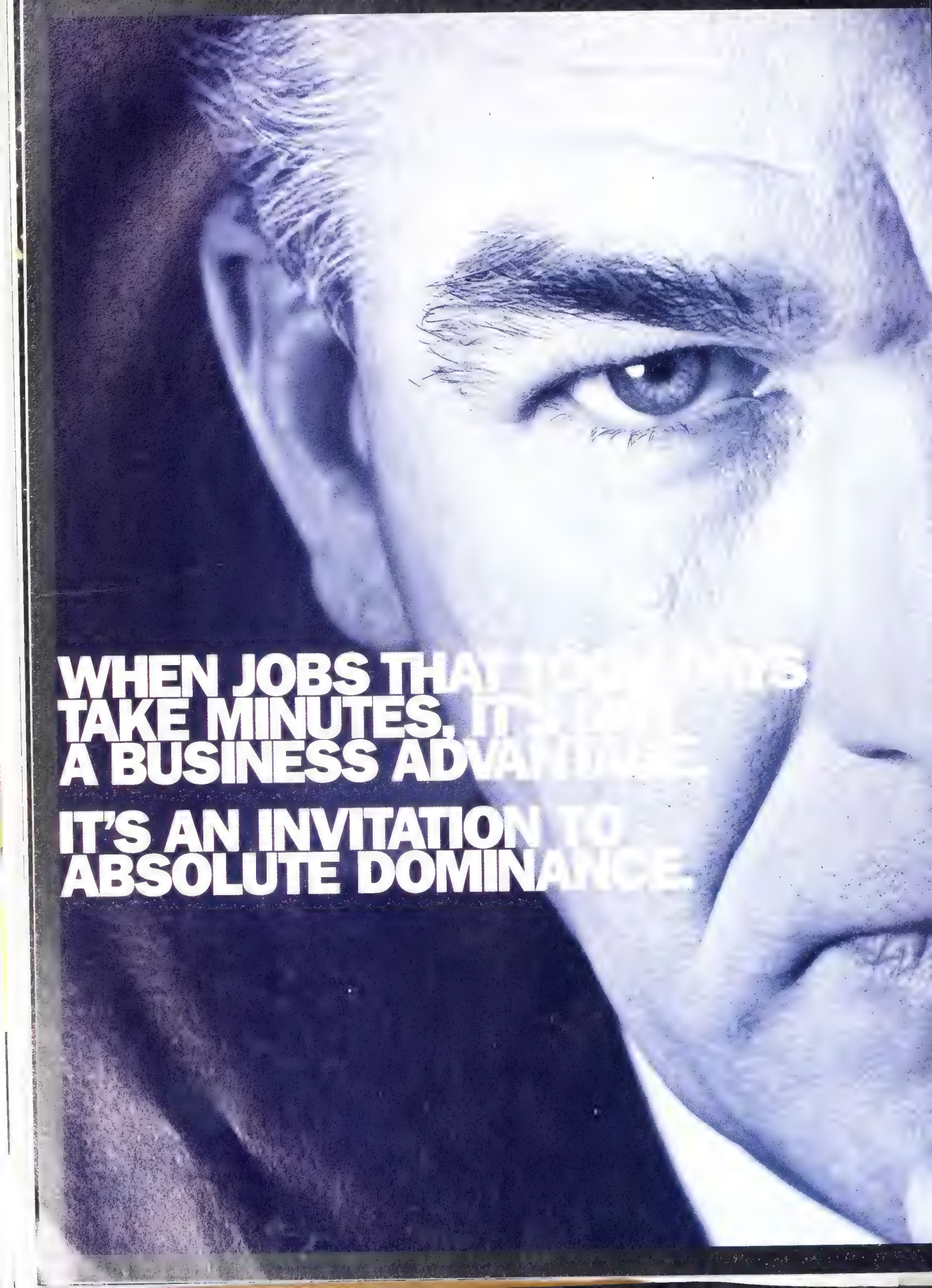
ODAK CALLS FOR BACKUP

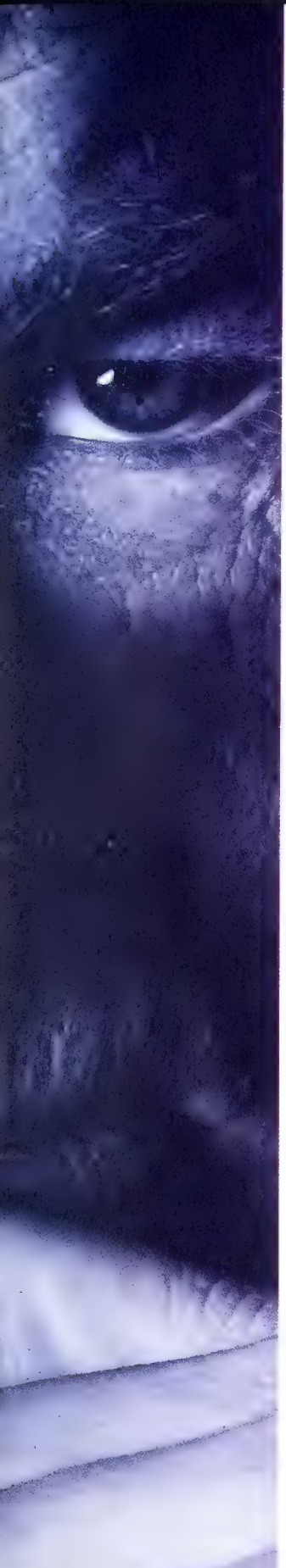
▸ Eastman Kodak Co., frustrated that ts unfair-trade case against the Japa-ese government and Fuji Photo Film Co. is going nowhere, is trying to build ew political support for its cause. It vas elated last year when the Clinton Administration launched a trade inves-igation that could lead to sanctions if alks with Tokyo proved fruitless. But J. S. trade officials have been stymied ver Japan's refusal to even sit down t the bargaining table. So an anxious Kodak is now lobbying Congress for help in turning up the heat on both U. S. and Japanese trade officials.

Why has the case, alleging anticompetitive practices by Fuji and Japanese officials to limit Kodak's access to the Japan market, languished? Kodak didn't foresee the sea change in U. S.-Japan trade relations triggered by last year's auto trade flap and the advent of the World Trade Organization, which restricts unilateral action by the U. S. Tokyo, betting that Washington is merely bluffing about sanctions, has decided to stonewall on Kodak and other trade disputes.

NEW BUDGET BOSS

▸ The next head of the Office of Management & Budget is likely to be Deputy Director Jacob J. "Jack" Lew, Clinton Administration insiders say. A top aide to late House Speaker Thomas P. "Tip" O'Neill Jr. (D-Mass.), Lew served first as the OMB's chief lobbyist and later as OMB Director Alice M. Rivlin's top assistant. Rivlin will leave her OMB post after the Senate confirms her as vice-chairman of the Federal Reserve Board. Hill approval is expected within a few weeks.


WHEN JOBS THAT
TAKE MINUTES,
A BUSINESS ADVA
IT'S AN INVITATION TO
ABSOLUTE DOMINA



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TAIWAN

AFTER THE STORM

Both sides are making conciliatory gestures, but...

After weeks of escalating tensions in the Taiwan Strait, the situation suddenly appears calm. Following Taiwan President Lee Teng-hui's resounding victory in the island's presidential election on Mar. 23, both Taipei and Beijing have been making conciliatory gestures aimed at lowering the heat. Everything from opening direct trade links to holding high-level meetings is being bandied about. The U.S. aircraft carrier Independence is returning to its port in Japan, while other warships are scheduled to depart soon. "I think this particular crisis is behind us now," U.S. Defense Secretary William J. Perry said after the election.

Not so fast. While China and Taiwan are searching for ways to defuse tensions, they are a long way from bridging the deep rifts separating them. Distrust on both sides remains high, and China's military is determined to keep the pressure on Lee. "They're on their honeymoon," says Tai Ming Cheung, a Chinese military analyst at Kim Eng Securities in Hong Kong, "but it will end in a very acrimonious marriage."

RED TAPE. In the weeks before Lee's May 20 inauguration, both governments will likely float trial balloons in a push to get relations on track. The opening signals are coming from Taipei. Just days after the election, Economics Minister Chiang Pin-kung indicated that the government will go ahead with legislation to allow some direct trade and investment with the mainland. Taiwanese have invested about $25 billion there but have been hindered by restrictions forcing them to go through Hong Kong or other third parties. On another front, Lee knocked down speculation that he would make another high-profile international trip, saying he will be too busy to travel abroad this year.

Lee is sending mixed signals. He says he's too busy to travel abroad, which should please Beijing. But he won't abandon U.N. membershi

In Beijing, where leaders want Lee to increase trade and lower his profile, those gestures may be well-received. The Chinese insist that Taiwan stick to a one-China policy and refrain from lobbying to upgrade its international status. After Lee's victory, more moderate policymakers in the Chinese leadership appear to have louder voices than the hard-liners, who clearly overplayed their hand with the military exercises. But the leadership will be monitoring Le every move. If he appoints members the pro-independence Democratic P gressive Party to his Cabinet, revam the constitution in a way that mak the island more independent, or pu chases advanced U.S. weaponry, Chi could rev up the pressure again.

Indeed, hard-liners remain deeply d trustful of Lee, who says he still wa Taiwan to win a seat in the U.N. Wh hard-liners may take a back seat now, the military option has not be

redited. A large number of troops ikely to be permanently deployed oss from Taiwan in Fujian province, orts Hong Kong's pro-Beijing news- er *Wen Wei Po*, which says that bar- ks that had long been empty are be- reopened. Beijing's leaders "may not e hostile words for Taiwan, but that sn't mean they have softened their ition," says Andrew Yang, secretary eral of the Chinese Council of Ad- ced Policy Studies in Taipei.

The Chinese military may be taking antage of the pause to assess needs. The American intervention this showdown indicates to the ple's Liberation Army that it needs h high-tech weaponry and improved ategies and tactics, particularly dealing with carrier battle groups. ances are the military will push new weapons, such as better long- ge missiles.

ING TIME. Lee is still in a delicate ation, needing to balance Taiwan's ire for greater global recognition h maintaining harmonious relations h the mainland. His goal is to buy e and hope for a day when China is e open and democratic. Many of his porters, strongly anti-Beijing, want to find a formula that will not lock wan into the mainland's embrace. nging tough, Lee's Cabinet members st that they will negotiate with Chi- as "equals," something Beijing will accept. Thus the two governments y not be able to agree on where to l talks, what preconditions to attach, ow to handle protocol issues.

The Taiwanese also remain profound- wary of China's intentions, particu- y in view of its most recent moves in rby Hong Kong. After the Taiwanese tion, Beijing confirmed that it will band Hong Kong's existing legisla- e, which—to China's dismay—has be- e more of a democratic decision-mak- body. Moreover, China demands that ng Kong officials support a Beijing- ked provisional legislature if they nt to serve in the Hong Kong gov- ment after the July, 1997, turnover.

n the weeks leading up to Lee's hly anticipated inaugural address, h Beijing and Taipei will find ways to ew contacts. "The Chinese don't ex- t all their demands to be met, and wan really can't fold on all its de- nds," says a Western analyst in Hong ng. "But they both want and need a y to get along with each other." That asier said than done. In these sensi- e times, today's becalmed Taiwan ait could once again turn into ex- mely rough waters.

By Joyce Barnathan in Hong Kong l Margaret Dawson and Pete Engar- in Taipei

THE RIGHT MAN IN THE RIGHT PLACE AT THE RIGHT TIME?

When Ambassador James Sasser had his first get-together with American journalists after arriving in Beijing in February, he got right to the point. During a chat over tea, he informed them that the chocolate chip cookies they were munching were made from a recipe of Hillary Rodham Clinton's.

With 18 years of congressional experience and close connections to both President Clinton and Vice-President Gore, the former senator from Tennessee is banking that his credentials as a Washington insider will make up for a dearth of China experience and allow him to mend fragile Sino-U. S. relations. The Chinese seem open to that. "We hope, because of his special role, he can talk to Congress so as not to fan the flames," says Su Ge, professor of international studies at the Foreign Affairs College in Beijing.

THE POWER OF PULL
Sasser's Washington connections are paying off in China, where he is considered more a political operative than a diplomat

As a result, both the Chinese and the Americans want to make Sasser's diplomatic posting work. After eight months without a U. S. ambassador in Beijing, everyone seems relieved. "The fact that he's coming in during a crisis has given him a perfectly natural excuse to call on everyone under the sun," says a Western diplomat. Sasser's meetings with Chinese leaders haven't been the customary five-minute sessions over jasmine tea. Instead, Sasser, 59, has been sitting down for lengthy talks with President Jiang Zemin, Premier Li Peng, and other top leaders.

BATTLEFIELD PROMOTION. The Chinese hope to establish a new channel through Sasser partly because their faith in State Dept. promises has been shaken. It was Secretary of State Warren Christopher who vowed Washington wouldn't grant a visa to Taiwan's Lee Teng-hui—only to be overturned. "They are treating Sasser like he's at a higher protocol level than a normal ambassador," says an American executive based in Beijing.

By contrast, J. Stapleton Roy, the previous ambassador and an experienced China hand—he was born in China to missionary parents—left town last summer complaining that he was being denied access to the Chinese leadership. "Roy wasn't powerful enough on either side: Washington or Beijing," the executive says. "He couldn't get on the phone and just call up Clinton like Sasser can."

Although Roy was China-savvy, he often appeared impatient with people who didn't understand the issues. Sasser, the good ol' Southern boy, tells jokes and tries to get along with all. "It's clear watching him operate that he knows how to talk to people. He's funny and laid-back," says Anne Stevenson-Yang, director of China operations at the U. S.-China Business Council.

FADING SMILES. However, with the hard politics of a U. S. Presidential campaign bound to cause complications with a tough-talking Chinese leadership, relations could easily sour further. The issues of China's admission to the World Trade Organization, its most-favored-nation status, intellectual property ripoffs, arms sales, and human rights all remain obstacles to better relations (page 50).

Sasser can't expect the red carpet to remain permanently unrolled. He must keep the Chinese interested and listening to him. If they trust him enough, they might moderate some of their most egregious actions. The new ambassador is going to need every scrap of charm and every connection back home to pull off what could be the diplomatic role of a lifetime.

By Dexter Roberts in Beijing, with bureau reports

CHINA

THIS IS ONE SHOWDOWN THE WHITE HOUSE CAN'T DUCK

Slapping piracy sanctions on Beijing may help save MFN status

With two American aircraft carriers streaming away from waters near Taiwan, tensions between the U.S. and China would seem to be easing. But even as Washington and Beijing grope for a rapprochement, trouble looms on the economic front. Time is running out for China to enforce a 22-month-old accord aimed at eliminating piracy of intellectual property. Barring dramatic, last-minute concessions by Beijing, the Clinton Administration is set to slap $2 billion in sanctions on Chinese goods come the end of April.

To minimize the impact on U.S. industry, trade officials are expected to target Chinese toys and apparel but not electronic components. If the sanctions are imposed, the higher tariffs would not go into effect for 60 to 90 days. Beijing will howl but probably make concessions before the stiffer levies kick in, China watchers predict. But for the White House, there's no avoiding this showdown. The February, 1995, agreement addressed the concerns of politically powerful U.S. industries: music recordings, movies, software, and book publishing. And the pact is now viewed in Washington as a test for trade relations.

"OUT OF CONTROL." What's more, enforcement of the agreement is critical to salvaging China's most-favored-nation (MFN) trade status. President Clinton plans to renew Beijing's trade privileges this spring. But a bipartisan coalition on Capitol Hill is readying an assault on MFN status for China, which the White House must review by June 3. "The politics are very clear," says one Administration official. To preserve MFN, "we have to demonstrate that we will force China to live up to trade agreements."

That's why the U.S. is increasing the pressure. Deputy U.S. Trade Representative Charlene Barshefsky will lead a team in early April for a final round of talks. She'll be joined by movie-industry lobbyist Jack J. Valenti and other trade group chieftains.

While China has cleaned up some intellectual property abuses, piracy remains rampant, and the toll on U.S. business is growing (table). Trade officials estimate that bootlegging in China cost U.S. business nearly $2.5 billion in lost sales last year, far exceeding the $866 million bite in 1994. The surge reflects a shift by pirate producers from music compact disks to more lucrative computer CD-ROMs. And as pirates flood the market in Hong Kong, gains in copyright protection there are in jeopar

BOOTLEG CDs: *Counterfeit plants have well-connected backers*

What Chinese Piracy Costs U.S. Business

PRODUCT	1995 LOSS MILLIONS OF DOLLARS
MOTION PICTURES	$124
BOOKS	125
RECORDS AND MUSIC	527*
BUSINESS SOFTWARE	400
ENTERTAINMENT SOFTWARE	1,300
TOTAL	$2,476

*1994 DATA: INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE, BUSINESS SOFTWARE ALLIANCE

"It's devastating," says Jay Berma chairman of the Recording Industry A sociation of America. "We spent 10 yea cleaning up Hong Kong. Now the situ tion there is out of control."

Beijing officials insist they're maki headway. According to Duan Ruichu director of the State Council's worki committee on intellectual property righ (IPR), authorities have destroyed 800,0 pirated audio- and videocassettes a more than 40,000 software progran Some $3 million worth of fines ha been levied in connection with 9,000 c es of trademark violation.

TIGHT FOREIGN QUOTAS. But while C na has gone after retailers, it has fail to shutter or convert to legitimate pr duction at least 29 know plants pirating comput and music CDs. Tight qu tas on foreign films a music titles remain in for And Beijing has yet to sue regulations for forei joint ventures that wou enable U.S. music and so ware companies to opera in China.

Lack of political will is key reason for China's la luster enforcement, Chi experts say. Pirate plants have politically co nected backers, and gene ate employment and profits at a time when t state sector is faltering.

Top U.S. officials we reluctant to turn up t heat on intellectual pira during the tense gunboat diplomacy su rounding Taiwan's elections. But wi hostilities easing, trade hard-liners pl to press their case in future Cabin deliberations. And the longer the A ministration dithers over how to r spond to evidence that China sold r clear-weapons technology to Pakistan— hot-button issue on Capitol Hill—t more likely sanctions over piracy b come. "We need a downpayment" to ju tify renewal of MFN, says a Washin ton trade lobbyist, "and tough acti on IPR looks like all there is."

In an election year, the Administr tion might be tempted to accept tok moves and declare victory. But if does, annual showdowns over trad marks and copyrights could become routine as MFN debates. That's wh Washington is jumping out of the fryi pan—into a new fire.

By Amy Borrus in Washington, w Joyce Barnathan in Hong Kong

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JOBLESS IN BERLIN: *Companies wan to avoid the huge costs of layoffs*

EUROPE

A CONTINENT SWARMING WITH TEMPS

Hard times and rigid labor rules make bosses wary of hiring

When Patrick Lefresne began his working life, the odds were stacked against him. A ninth-grade dropout, he learned a smattering of carpentry and electrical skills in a government program, but he couldn't land a job in his depressed hometown, the working-class city of Laval, France. Undaunted, at age 19 the self-confessed "natural optimist" moved to Paris—and landed a job through the Ecco temp agency. While his pals back in Laval are still on the dole, Lefresne, 23, earns about $14,400 annually from an average 10 months of work a year in warehouse jobs that last "from four hours to two years." Last year, he could afford a U.S. vacation.

Lefresne is one of a new breed of European worker created by hard times and the vagaries of a heavily regulated workplace. Laws giving permanent workers high levels of job protection make bosses wary of expanding their payrolls. But workers willing to take part-time shifts or labor on a short-term contract—that's a different story. In France, both types of employment have risen by 50% since the 1980s and now account for about one in five jobs. Across Europe, companies are taking on temp workers by the hundreds of thousands to help with such tasks as assembling auto parts and writing software. In the process, employers are creating a flexible labor market that can respond to the swings of the economic cycle.

SEEKING WORK. Obviously, it would be better if Europe could generate millions of permanent new jobs. But so-called precarious work is better than nothing, especially for young Europeans desperate to escape the dole. Yet temp work was unavailable to many on the Continent for a long time. In Germany, the ban on private agencies that place temporary workers was lifted only in 1994. Since then, such agencies as Manpower International Inc. have been doing a land-office business. Revenues at Manpower's German branch grew 35%, to $115 million last year, and the company expects to repeat that growth this year. "It's proof that [the] German labor market has changed dramatically," says Manpower Managing Director Diethelm Bender.

Spain's experience is another sign that temps are here to stay. Last year, Spain created 372,000 jobs, 70% of th temporary. Companies in Spain, sa Stephen G. Lyons, managing direc at Ford Motor Co.'s Spanish unit, n "hire temporary employees as a stra gy to avoid layoffs."

That's a strategy employers are pur ing throughout Europe. In many ca companies will avoid hiring full-ti workers because, in the event of layo employers are legally required to p them huge sums as severance. In Spa employees have a right to 30 days' sev ance for every year of employment. T price is steep in Germany, too, where costs companies routinely around $55,0 to lay off one worker. Daimler Ben aerospace subsidiary, for example, tool $340 million charge last year after it a nounced 5,100 layoffs.

Despite the attractions of tempora work as a palliative in a period of dow sizing, many governments are still ke ing a rein on it. The fear among pol cians and unions is that employers w quietly build up armies of temps to sume the work once done by full-ti employees, and so wipe away all worl security. Germany insists, for instan that temps shouldn't work for mo than nine months for any single e ployer. In Spain, the maximum contr is for three years, then it's out the do

Yet the payoff for removing most li itations on temp work can be enormo despite the political risk. Britain, whe 30% of the workfor now has a precario job, is attracting b lions in new foreign vestments, while Ge many, with barely 10 holding temp jobs, f es disinvestment.

And for leaders su as German Chancel Helmut Kohl, a bold approach could ha other advantages. I has promised to c German unemployme in half and create tw million jobs by 200 Studies by manag ment consultants su gest he could make good on his prom by actively promoting part-time wo Maybe he should hire a few executiv from Manpower to help him do th Part-time, of course.

By John Templeman in Bonn, w Mia Trinephi in Paris, Stewart Toy Madrid, and bureau reports

THE GROWING RANKS OF EUROPE'S PART-TIMERS

FRANCE One in five workers is on a temporary or part-time contract

SPAIN Seven out of 10 new jobs created last year were for temporary workers

BRITAIN Over 30% of the workforce is temporary or part-time

GERMANY Revenues at Manpower are up 35% over last year

DATA: BUSINESS WEEK

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MEXICO

STAYING AFLOAT QUITE NICELY, THANK YOU

Mexico is borrowing again–but it's still vulnerable

Martin Werner, Mexico's chief foreign-debt strategist, speaks fluent English at a machine-gun pace—a trait that's coming in handy these days. Why? Rebounding from 1995's peso crisis and $50 billion international bailout, Mexico is back in the global debt market in a big way, and Werner is doing a deal a minute with investors from America, Europe, Asia, and even South Africa.

In his most recent financing, Werner sold 40 trillion yen ($375 million) worth of six-year bonds in Japan. After converting the proceeds to dollars, the Mexicans ended up paying 390 basis points over the yield on comparable U.S. Treasury debt—about 10% today. That's down from the 550-point spread they faced after the peso was devalued at the end of 1994. Says Werner, a 32-year-old with a doctorate in economics from Yale: "Last year, we were chasing the bankers. Now, they're starting to chase us."

"STILL SKATING ON THIN ICE." So accomplished have the Mexicans been at convincing investors their economy has bottomed out that Mexico now leads Latin America in international debt transactions. Of the $30.8 billion issued by Latin American corporate and sovereign borrowers last year, $7.8 billion went to Mexico. The Mexicans have raised an additional $3.1 billion since Jan. 1. In fact, they have passed Brazil as the largest debtor in the developing world, with foreign obligations estimated at $157.2 billion (charts).

Much of Mexico's new debt is going to pay off the $29 billion in dollar-de[illegible]ted short-term instruments called [illegible], which the country issued in 1994 to replace foreign investment that fled durin[illegible] that politically turbulent year. But although the Mexicans surprised mone[illegible] mavens with their ability to raise fresh cash—they even have repaid $2 billion in U.S. bailout loans—they aren't home free.

Mexico is still vulnerable to a variety of shocks that could spook foreign investors again, just as the bulk of $24.5 billion in bailout debt owed to the U.S. and the International Monetary Fund starts coming due in 1998 and 1999. Mexico's risk factors include possible increases in American interest rates that could lure investors back into less risky U.S. debt, a worsening of the country's banking crisis, and an increase in political turbulence as scarce resources needed to spur growth and ease social tensions continue to be diverted into servicing overseas debt. Corporate borrowings could also pose a problem. Foreign corporate debt surged to $26 billion by 1994 as companies scrambled to outfit themselves for free trade. On top of that, scores of midsize companies are heavily in debt to local lenders. If too many recession-plagued debtors run into liquidity problems, investors could lose confidence in the country. "They are still skating on thin ice," worries Shafiq Islam, chief emerging-markets strategist at Crédit Suisse in New York.

Mexican officials insist they have the right strategy. After M[illegible]ico's 1982 debt crisis, seven years pas[illegible] before it could resume international b[illegible]rowing. But last June, seven months [illegible]ter the devaluation, Mexico issue[illegible] two-year, $1 billion bond. "The succ[illegible] of that deal was very important in m[illegible]ing people believe you can make mo[illegible] again in Mexico," says Werner. "[illegible] were conscious that we had to start [illegible] most from scratch in build[illegible] credibility."

Despite Mexico's rec[illegible] record abroad, Werne[illegible] in no hurry to build u[illegible] large reserve to re[illegible] huge slugs of U.S. [illegible] IMF bailout loans mat[illegible]ing in 1998 and '99. [illegible]guing that the Mexi[illegible] economy will be in bet[illegible] shape by next year, W[illegible]ner insists that "w[illegible] have no probl[illegible] refinancing un[illegible] much better co[illegible]tions." Others [illegible] agree. Says Islam: [illegible] there is another collapse of c[illegible]fidence and they aren't able to go b[illegible] to Uncle Sam another time, they [illegible] the risk of not being able to serv[illegible] their debt."

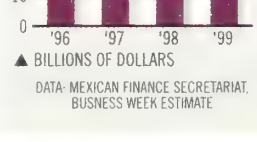
Indeed, even Werner is cautio[illegible] Gross domestic product is expected [illegible] contract 3% in the first quarter and [illegible]pand only by 2.5% for the entire y[illegible] Says Werner: "We're in a transit[illegible] phase, coming out of the worst but [illegible] yet with clear signs of recovery."

If things start to unravel again, M[illegible]ico still can draw up to $8.5 billion m[illegible] from the U.S. Exchange Stabilizat[illegible] Fund and $4.8 billion from the IMF. [illegible] most analysts think the Mexicans will [illegible] to great lengths to av[illegible] such a move. And [illegible] Clinton Administrati[illegible] concerned about critici[illegible] of its Mexico policy d[illegible]ing the Presidential ca[illegible]paign, would prefer [illegible] Mexicans not make he[illegible] lines. But the Washi[illegible]ton-led bailout has giv[illegible] Mexico breathing spa[illegible] Werner has convert[illegible] enough investors to [illegible] cause to bring in so[illegible] $10 billion in new cas[illegible] and has gone a long w[illegible] toward raising ev[illegible] more.

By Geri Smith in M[illegible]ico City, with Dean Fo[illegible] in Washington

WHAT MEXICO OWES...

...AND WHAT IT MUST REPAY



DATA: MEXICAN FINANCE SECRETARIAT, BUSINESS WEEK ESTIMATE

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CONTRAFUND	32.19%	23.30%	19.02%	13.72%
FIDELITY FUND	32.85%	16.78%	14.10%	10.64%
EMERGING GROWTH	31.86%	23.36%	N/A	23.44%
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[1]Average annual total returns for the period ended 12/31/95 are historical and include change in share price and reinvestment of dividends and capital gains. Also reflected is the effect of a 3% sales charge for Blue Chip Growth, Contrafund, Emerging Growth, and Growth Company. Prior to January 1, 1996, Puritan imposed a 2% sales charge. If this sales charge were taken into account, total returns would have been lower. Share prices and returns will vary. Life of fund for Fidelity Equity-Income II Fund is from 8/21/90; for Fidelity Blue Chip Growth Fund is from 12/31/87; for Fidelity Contrafund is from 5/17/67; for Fidelity Fund is from 4/30/30; for Fidelity Emerging Growth Fund is from 12/28/90; for Fidelity Growth Company Fund is from 1/17/83; and for Fidelity Puritan Fund is from 4/16/47. [2]This offer applies to certain Fidelity retirement plans marketed and distributed directly by Fidelity. Fidelity Magellan® Fund, Fidelity New Millennium™ Fund, and Fidelity Select Portfolios® are excluded. Fidelity Distributors Corporation. Fidelity Brokerage Services, Inc. Member NYSE, SIPC.

EDITED BY ROSE BRADY

WHICH ELECTORAL DISTRICT SCARES WASHINGTON THE MOST? RUSSIA

They've seen the unnerving Russian polls. They've heard the anti-Yeltsin talk in Moscow. Now, Clinton Administration officials are grappling with a grim possibility: Communist Party Chief Gennady Zyuganov might win Russia's presidential elections in June.

Such an outcome could shatter the foundation of Washington's post-cold war policy, which rests on the notion that a reformist, market-oriented Russia will continue to evolve as a benign force on the world stage. Resurgent Russian communism would surely become a hot campaign issue in November's U.S. election and could force President Clinton to reassess policy on a host of issues, from expanding NATO to stretching out development of a Star Wars antimissile defense system. "The whole Russia policy is in a shambles if the Communists win," says Peter W. Rodman, a national security specialist at the Nixon Center for Peace & Freedom.

COLD WAR CLOUT. Even if a chastened President Boris Yeltsin ekes out a win—outright or with some finagling, as many experts expect—he's likely to adopt a more aggressive foreign policy to placate Russian nationalists. "It is hard to imagine an outcome that leaves Russia and U.S. policy better off than it is now," frets Arnold Kanter of the Washington-based Forum for International Policy.

LENIN: *Comeback kid?*

Clinton Administration officials say they're prepared to accept the voters' judgment and can handle a retrograde regime. The U.S. has made Russian loans and integration into institutions such as the World Trade Organization contingent on economic reforms. If Moscow turns back to a state-controlled economy, "our aid program will stop," warns a top Administration aide.

More worrisome are Moscow's efforts to reassert cold war clout on the world stage. Russia is forging the warmest links with China's military since the 1961 Sino-Soviet split. Moscow is cozying up to Iran to boost its standing in Persian Gu geopolitics. And many experts believe Russia's Mar. 22 acco with Belarus is the first step toward re-linking remnants the Soviet Union. While the new federation is voluntar Moscow is also playing hardball. The government has threa ened to close its border with Estonia in a dispute over trea ment of ethnic Russians. And Russia is trying to assert co trol over a proposed oil pipeline from Azerbaijan.

Such moves make Administration officials jittery. Th are scrambling to come up with policy optio from halting billions of dollars of aid to Mosc to denying Russia a seat at international f rums such as the Group of Seven meeting industrialized nations. If the next Russian go ernment wants to get the country back on i feet, "it can't do it alone," says Deputy Secr tary of State Strobe Talbott.

Already, a blame game has begun. With t GOP warning about rising Soviet-style nation ism, Clinton will be under pressure to accelera decisions on NATO expansion that weren't d until yearend. The Administration also cou be forced to reverse field on a missile defen system. Republicans have wanted to legislate date for deployment of such a scheme, but Cli ton has objected because the system would olate the 1972 Anti-Ballistic Missile Treaty. more militant Moscow would make it tough for the Administration to resist calls for a defensive shield

The Clintonites still hope to avoid the worst-case scena in Russia. They believe the winner in June will have to foc on rebuilding the nation's economy and that Russia st needs Western capital. Still, few experts think a lack of r sources will eliminate Moscow mischief. Such a "cool wa may only echo tensions with the old Soviet Union, but would be an echo loud enough to worry the U.S.

By Stan Crock in Washingt

GLOBAL WRAPUP

ANOTHER TERM FOR KOHL?

▶ The smart money in Bonn is betting that Chancellor Helmut Kohl will run for a fifth term in 1998 and remain in office into the next century. He survived another electoral high noon on Mar. 24. According to the German press, his Free Democratic Party (FDP) allies were supposed to lose three state elections that day. Then, the scenario ran, a political crisis would bring down Kohl's coalition government as FDP deputies defected to the opposition Social Democratic Party (SPD).

Instead, Kohl has emerged stronger than ever. The SPD was humbled in the Mar. 24 vote and is unlikely to seriously challenge Kohl at the next Bundestag elections, scheduled for October, 1998. Voters also turned down two populist ploys by the SPD. The SPD wanted to limit immigration of German-origin people from Eastern Europe and reject the common European currency due to replace the mark in 1999. Both would have set back Kohl's mission to unite Europe and to make Germany's reunification a success before he retires.

BANK BLOWOUT

▶ The Italian government will have a hard time finding a buyer for nearly bankrupt Banco di Napoli, even after the $2 billion bailout it announced on Mar. 26. The 13% state-owned bank, a key institution in poorer southern Italy, wracked up $1.9 billion in losses in 1995. Its chairman, Carlo Pace, has resigned to stand as a right-wing candidate in April parliamentary elections. The government hopes to sell the bank by 1997 but will have to shake it up first.

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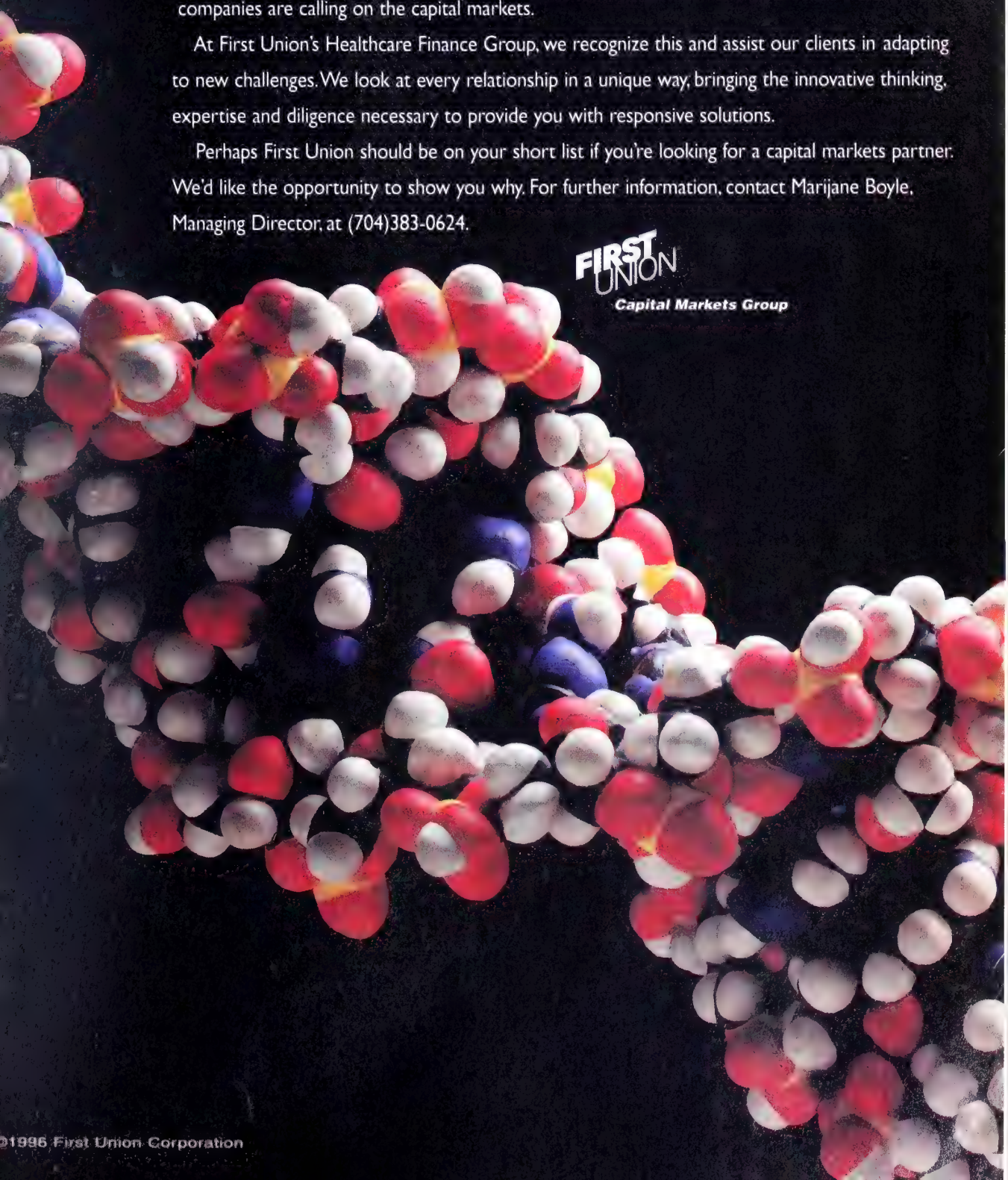

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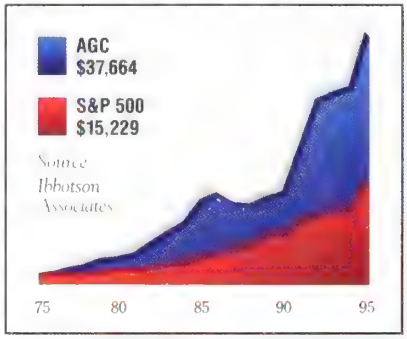

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ROTEIN TAGS CHASE WN TUMORS

EMOTHERAPY DELIVERS A verful punch to some tu- rs, but it can damage the ient's organs and weaken immune system. That's y doctors long for a magic let that would target only tumor. They've tried an- ring drugs to antibodies t home in on specific sites. t these tend to be large lecules that don't pene- te tumors easily.

In the Mar. 28 issue of *Na- e*, scientists at the Burn- n Institute in La Jolla, lif., describe a new method generating small protein gs" that can find their own y to specified "addresses" the human body. Institute esident Erkki Ruoslahti, a lecular biologist, and col- gue Renata Pasqualini gen- te randomly shaped pro- n structures on the outer ting of billions of viruses. ected into mice, the altered uses bind to cells whose re- tors match their protein uctures. Scientists then re- ve the target organs—here, brain and kidney—grind em up, and isolate viruses nd there.

In the case described in *ture*, researchers found t three types of altered uses in the brain and one e in the kidney. Their con- sion: These viruses con- ned the right protein tag quired to bind with cells in se two organs. The re- archers then cloned and ltured the viruses and iso- ed the DNA that generates e desired protein struc- res. The protein tags can coupled with drugs or nes for delivery to the ap- opriate organ, says oslahti. His lab is using e method to find tags for ood vessels that nourish mors. *David Graham*

FEWER PINPRICKS FOR DIABETICS

TO KEEP TABS ON THEIR glucose levels, many diabetics observe a ritual of pricking their fingers with a needle several times a day to draw a drop of blood. Insulin-pump maker MiniMed Inc. of Sylmar, Calif., has an alternative: an implantable glucose sensor that may be on the market in two or three years. Inserted by the user just under the skin of the abdomen, the small pin would need replacing only once every three days.

The pin contains tiny electrodes that, upon contact with glucose, produce electrochemical reactions. A button-size connector attached to the pin interprets them, sending radio signals to a wristwatch-like reader. This displays the user's glucose level and alerts the wearer to any sudden changes with a series of beeps. □

WORKERS WITH FLEXTIME GET SOME HEARTENING NEWS

WHO'S AT HIGHER RISK OF DYing of a work-related heart attack: a hard-driving prosecutor who puts in 80-hour weeks or a 9-to-5 assembly-line worker? Surprisingly, the prosecutor may face a lower risk, according to a 14-year study of some 12,500 Swedish male workers published in the March issue of the *American Journal of Public Health*. The real culprits in these attacks seem to be a sense of isolation and lack of control over one's job.

Assembly-line workers, of course, aren't the only ones who fit that bill. A white-collar worker with an authoritarian boss may be in just as much danger. According to one of the study's authors, Walter Stewart, associate professor of epidemiology at Johns Hopkins School of Public Health, a worker who feels like a cog in a machine has a 162% higher risk of dying from a heart attack than one who has a lot of input and works in a team. And that sense of belonging may have other benefits: higher worker productivity and less absenteeism. What causes the attacks? Stewart says elevated blood pressure could be the key. *Naomi Freundlich*

IBM'S I-WAY IMMUNE SYSTEM

COMPUTER VIRUSES ONCE SPREAD SLOWLY, VIA TAINTED diskettes. But over the Internet, a virus can infect millions of PCs in hours. Now, IBM has devised a software "disinfectant" modeled on the human immune system.

Each subscriber to IBM's AntiVirus system—mainly administrators of local-area networks (LANs)—will have a LAN-monitoring PC that acts like a vigilant white blood cell. When the PC spots a virus on the LAN, it whisks the infected file off to computers at IBM's research labs. If the computers recognize the virus, they'll zip back an antidote. Beginning next year, when a new virus crops up, they will be able to "culture" it and use artificial intelligence programs to concoct a cure. Says AntiVirus head Steve R. White, the system can "detect new viruses better than our human experts." *Otis Port*

INNOVATIONS

■ Scientists studying the effects of neurotoxins may soon need fewer lab animals. At last week's meeting of the American Chemical Society in New Orleans, Johns Hopkins University chemist

Richard Potember described a method for culturing large numbers of neurons from a single mouse embryo. He grows them on small glass plates that may be used for disposable toxicity tests.

■ Tel Aviv inventor Dan Eylon has received two U.S. patents for designing a housing that lets batteries face in either direction. Both ends of the housing are identical, with a horseshoe-shaped "bumper" shielding a recessed plate. The protrusion on the positive end of the battery slips into the horseshoe; the bumper on the other side contacts the negative end of the battery, keeping it off the recessed plate.

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwapr@businessweek.com

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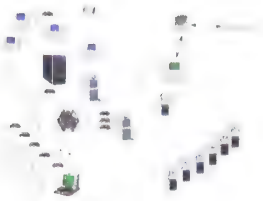
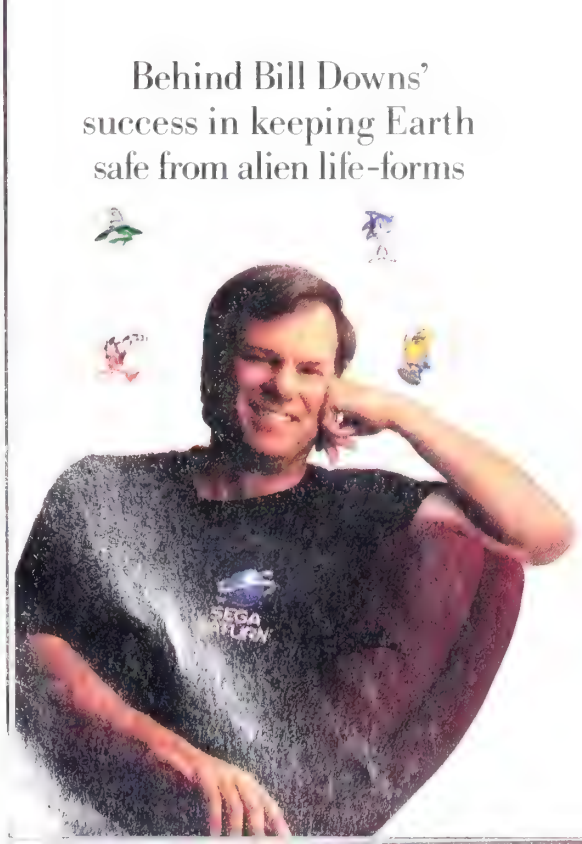
He was also the first to see that AS/400 Advanced Series could do all this with lower administrative costs than other platforms.

and the ability to add more power at a moment's notice.



is a client/server network that sends sales data throughout the Sega® empire instantly

Behind Bill Downs' success in keeping Earth safe from alien life-forms



When your business grows from zero dollars to a billion dollars in five years, choosing a client/server system that can keep up with the growth is pretty important.

Which is what Bill Downs of Sega has found with AS/400 Advanced Serie

In five years, we probably would have had two or three different business systems if we had started with something that didn't scale as easily a AS/400," says Bill. "None of us had th idea we would grow as fast as we did

Bill has his AS/400 Advanced Serie running the entire business. He's using it to process orders and schedule delivery to 20,000 retail stores overnight. H has his company's PCs, Macs, and Silico Graphics workstations running off it.

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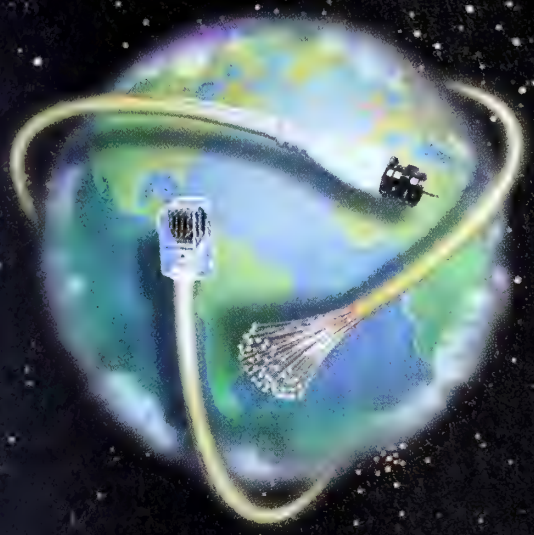

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The Bells won't wrest share from the Big Three without a fight

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With telecom reform law in the U.S., the FCC is setting ground rules. And the rest of the world isn't far behind

ILLUSTRATION BY LISA KUSTE BRAMAN/BW

Special Report

THE COMING TELESCRAMBLE

Deregulation is launching a $1 trillion digital free-for-all

"We're surrounded by insurmountable opportunity!"—Pogo

And so are we. The U.S. is embarking on a bold experiment—going further than any other major nation to deregulate the communications industries that are building the infrastructure for the 21st century's information economy. With a stroke of his electronic pen, on Feb. 8 President Clinton signed the sweeping Telecommunications Act of 1996, ending government rules that have maintained barriers between local and long-distance calling, cable TV, broadcasting, and wireless services. In the age of digital communications, those rules have become as anachronistic as, well, the rotary phone. The microchip is putting all forms of communications—from satellite-TV images and long-distance phone calls to E-mail and World Wide Web pages—on the same digital footing. Now, Washington caught up.

The short-term effect will be to unleash a frenzy of rest turings, mergers, and dealmaking—rearranging indust that, according to DRI/McGraw-Hill, will account for $1 tri in annual revenues by 2000. Phone companies, publisl companies, Hollywood studios, broadcasters, cable-TV op tors, and information-technology outfits will go racing each others' businesses. AT&T, for instance, has filed in a states to offer local service. On the very day the act signed, Central & South West Corp., a Dallas utility, filec the right to offer telecom service.

The new age's approach has inspired a series of m deals. In 1994, Bell Atlantic Corp. bid $12 billion for T Communications Inc. (TCI) to form a multimedia behem

The Long Road To Open Markets

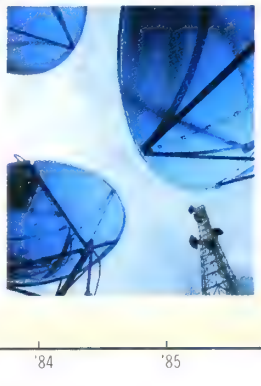
Congress exempted phone companies from the antitrust laws in 1921. It created the Federal Communications Commission in 1934 to rule over telephones and broadcasting, and, later, the satellite-communications and cable-TV industries. More than 60 years later, competition is finally back..

1968 THE CARTERFONE DECISION In a landmark ruling, the FCC f the first time allows non-AT&T equipment to attach to the Bell System. The little gadget that started the big war: the Carterfone, which connected two-way radios to the phone network.

OUTPUT OF ALL COMMUNICATIONS, ENTERTAINMENT, AND INFORMATION-RELATED SERVICES AND PRODUCTS

IN BILLIONS OF DOLLARS

1972 AT&T'S FIRST COMPETITOR Microwave Communications Inc., later MCI, wins an FCC license to transmit calls between Chicago and St. Louis.



1975 TELEPHONES GO The FCC reallocates a of the radio spectrum for mobile communica Cellular is born.

'78 '79 '80 '81 '82 '83 '84 '85 '86 '87

e deal fell through, but AT&T's $13 billion eover of McCaw Cellular Communications . was consummated. Then came entertain- nt megamergers aimed at providing content the Information Superhighway: Disney's rchase of Capital Cities/ABC and Time Warn- s bid for Turner Broadcasting. In February, S West Inc. announced a $10.8 billion bid Continental Cablevision Inc., the nation's .3 cable operator. Perhaps the most signifi- t move, however, was AT&T's decision to ak itself up a second time: To focus on the ning shake-up, it is spinning off telecom ipment and computer operations that account for a third ts sales.

From all this dealmaking will emerge a new crop of super- riers—companies that either on their own or through alli- es will offer a full menu of electronic communications, a bazaar with everything from video phones to Internet ser- es to a single phone number that will follow you wherev- you go.

VER RATES. AT&T is leading the way. It offers long-distance, ular, Internet access, satellite-TV—and soon local service— under the AT&T brand and all billable to the AT&T Univer- Card. But AT&T isn't alone. MCI is getting into satellite TV the Internet. Media giant Time Warner is getting into lo- phone service in U.S. cities—as is Britain's Cable & reless PLC. GTE Corp. sells long distance in two states, Ameritech, Bell Atlantic, Nynex, BellSouth, and SBC nmunications sell long distance to their cellular customers. As carriers begin to market bundles of communications ser- es, consumers should benefit. The communications compa- s say low-cost services will offset higher-cost ones in a kage. And in just about every service, competition and re efficient technology should push prices down. That in- des your local phone bill, even though the ancient system using high business rates to subsidize low residential ones nding. "It would be remarkable if, after this legislation is cted, local service prices didn't come down, or at least the price of the total communications package didn't come down," says AT&T Chairman Robert E. Allen. "Competition has worked everyplace else. There's no reason why it won't work here."

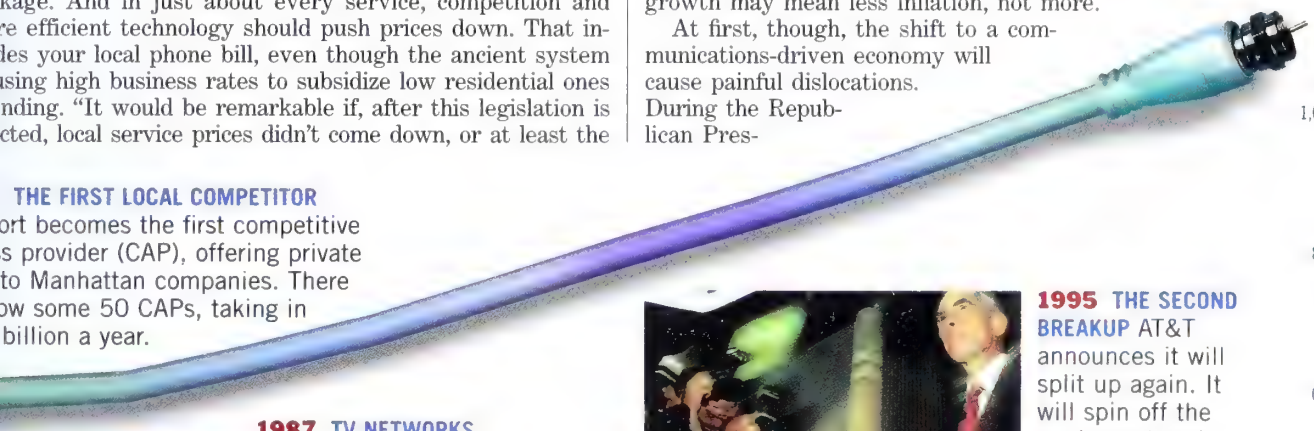
Like railroads in the 1800s, the I-way will transform the U.S. economy

There's something vastly more important than better prices that will arise from deregulation, however. Now that the players know where they stand, they can finally build the long-awaited high-speed (so-called broadband) links of the Information Superhighway. Like the transcontinental railroads that turned the U.S. into a world economic power in the 19th century, this I-way infrastructure has the potential to put the U.S. economy ahead of the rest of the world in the 21st.

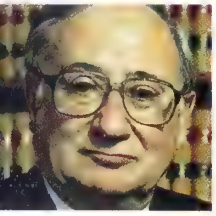
Digital networks will make possible efficient new ways of doing business—so-called electronic commerce. Increasingly, buyers and sellers, producers and consumers, will interact on the Net, squeezing time and cost out of all sorts of transactions. For example, the rapidly falling price of communications can cut tens of billions of dollars off the country's health-care bill, as hospitals buy supplies electronically rather than processing each order by hand. The new networks will also be fertile ground for all sorts of new ventures—everything from Web 'zines to movies on demand.

PAINFUL. The shift to the wired economy could even affect federal monetary policy. Today, the Federal Reserve keeps a damper on economic growth, not letting the unemployment rate fall below 5.5% for fear of igniting inflation. But the economics of communications changes the model. Although it is enormously expensive to build a fiber-optic or wireless network, the cost of serving each additional user is small. The more users a network has, the lower the overall tariff. In the era of pervasive digital communications, faster growth may mean less inflation, not more.

At first, though, the shift to a communications-driven economy will cause painful dislocations. During the Republican Pres-

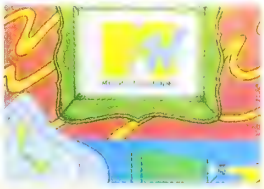


THE FIRST LOCAL COMPETITOR ort becomes the first competitive s provider (CAP), offering private to Manhattan companies. There ow some 50 CAPs, taking in billion a year.

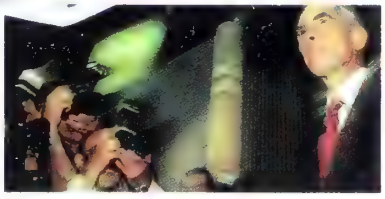


DIVESTITURE ttle a federal ust suit, AT&T s to spin off the 22 companies into Baby Bells. Judge d Greene oversees and the Bells.

1987 TV NETWORKS LOSE CONTROL Cable TV reaches the halfway mark, penetrating 50.5% of U.S. homes. Today, it reaches 66%—and cable channels command 50% of TV viewing time each day.



1994 CABLE GETS A COMPETITOR Hughes Satellite starts DirecTV, a direct-broadcast satellite (DBS) service that beams 175 channels to a dish 18 inches wide. It snags 1.3 million subscribers in less than a year. There will be six DBS services by the end of 1996.



1995 THE SECOND BREAKUP AT&T announces it will split up again. It will spin off the equipment and computer units —and focus on long distance.

1996 DEREGULATION After 10 years of trying, Congress finally passes a bill deregulating all segments of the communications industry: Telephone companies, broadcasters, and cable operators are all free to enter each others' markets. The bill was signed into law on Feb. 8.

1,200
1,000
800
600
400
200
0

FORECAST

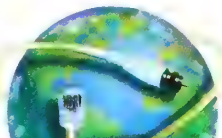
'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 2000

idential primaries, AT&T's plan to lay off 40,000 workers as part of its restructuring became the symbol of Middle America's economic insecurity. But it is just the latest and most visible event in a massive industry makeover that started with the 1984 breakup of the Bell System. AT&T and its offspring have slashed 250,000 jobs since then, in areas such as manufacturing and operator services, where new technology has made the old jobs obsolete.

Special Report

But behind the dismal headlines lurk some upbeat facts. Despite all the pink slips, total phone-industry employment has risen by 54,000 over the past two years, thanks to demand for cellular calling and other new services. If you look at the converging complex of communications, computers, and entertainment, you'll find these overlapping industries generated 400,000 new jobs over the past year, about 20% of the total new jobs in the economy. Those numbers will only grow as the digital economy takes off. The Telecom Act, asserts Vice-President Al Gore, will fire up a "massive job-creation engine."

It's not just political rhetoric. "In total, these major market changes will make the economic pie bigger, maybe a lot bigger," says Gerald R. Faulhaber, an economist at the Wharton School. "In the aggregate, we may increase national income big time." Compare it with the American railroad boom of the 1800s: Between 1865 and 1890, the number of miles of track grew from 35,000 to 166,000, much of it running through sparsely populated lands. The cost of both freight and passenger transportation fell sharply, and huge swaths of frontier were opened up for farming, mining, and industry.



Despite pink slips, phone jobs are up by 54,000 in the past two years

There's money to be made in building the information rails, too. Now that Congress has given them the carrot of unregulated markets, communications companies are set to pour billions into new plant and equipment. The Telecom Act "sets out a much more rapid path toward the interconnected, multiple-network approach," says Gerald W. Brock, an economist at George Washington University. In the past two years, spending on everything from modems to high-speed digital switches has soared by 53%, to almost $100 billion, double the rate of spending growth in computers and other capital equipment. "This is a great time to be a supplier," says John A. Roth, Northern Telecom Ltd.'s North American president. "Everybody out there is doing a lot of planning on infrastructure."

TECHNICAL KINKS. They won't deliver the I-way overnight, however. For starters, although the reform bill affects just about every corner of the communications business, many details of deregulation must still be hashed out by the Federal Communications Commission (page 86). The agency will spend the next year promulgating rules and overseeing the transition to unregulated markets.

Then there are lingering technical problems. The I-way envisioned in the early 1990s—a swirl of broadband networks delivering everything from wireless E-mail to interactive TV—has been considerably delayed by kinks in technology and high costs. For example, pumping cable TV over phone lines—or calls over cable—remains prohibitively expensive (page 82). Still, innovation is accelerating, especially on the fast-growing Internet. The Web now seems destined to become a universal format for bringing digital entertainment and information services together.

When the converged communications industry does emerge, who will the winners be? Observers predict that by the end of the decade the telecom and entertainment businesses be dominated by a handful of "convergence conglomerat The rest will have merged, partnered, or fallen by the w side. The companies most likely to come out on top are th with the best marketing skills, the strongest brands, deepest pockets, and a familiarity with competition. In ot words, AT&T, MCI, and Sprint—the long-distance giants— best positioned for the future.

"FINAL MILE." Cable-TV operators, on the other hand, may the least well-equipped. They are entering the race sadd with a heavy debt load, low profitability, and a reputation poor service. They are combining high-capacity fiber-o lines with coaxial wiring into the home, so that they deliver video, voice, and data simultaneously. But turn that link into a two-way path for video on demand or v service is a difficult process that no cable company has pulled off (page 75).

Local phone companies would seem to have huge advant es. With 12% aftertax margins, they are the most profita carriers. Plus, they have a lock on the "final mile"—the v ing that reaches into homes and businesses. Years of ope ing in monopoly markets, however, leave seven Baby Bells and GTE with outmoded r works ill-suited to the new era. Probe Resea Inc., a telecom consultancy in Cedar Knolls, N estimates that the Bells have spent $170 bil on networks since 1984—as much as their t plant investment prior to divestiture. But mos that went to rebuild existing networks rat than prepare for new digital services. "They n't increase the bandwidth," says Probe cons tant Alan Tumolillo. "They have built a big, o lete phone network."

Not so the long-distance companies. AT&T, M and Sprint all boast advanced fiber-optic r works that speed zillions of voice and data c around the globe (page 70). Getting similar li to homes will be a lengthy and costly proc that could cut into profit margins for a few ye But the infighting between the three has tau them marketing tricks that the monopol haven't had to learn. "You can't improvise w it comes to competition. It's either in your face it's not," says Frontier Corp. Chairman Ronald Bittner. He should know—Frontier's Rochester Telephon the first local phone company to face competition.

Still, at the outset of deregulation, it wouldn't be safe discount any players. Twenty years ago, who would h predicted that Delta Air Lines Inc. would be among the carriers and Pan Am would be out of business? "In long run, this is not a technology game. It's a market and brand-name game," says T. Mark Maybell, manag director of Merrill Lynch & Co.'s telecom investment-ba ing group.

While everyone is out there building convergence bra for the I-way, it might help to remember the uneven progr of those rail barons. Because they were pushing their li into undeveloped land, it was sometimes tough to mak profit. Overbuilding was common, and so were bankrupt In 1894, 40,000 miles of track were being operated by ba rupt companies—a lesson for potential investors in tod communications companies. But keep in mind that the tr didn't disappear—it was just taken over by somebody e The nation's travelers still got where they wanted to go, ever lower fares. It's hard to imagine that travelers on the formation Superhighway won't find the cyberroads just convenient, no matter who owns them.

By Catherine Arnst, with Michael Mandel, in New Y and bureau reports

FLOW CONTROL ▲ ANVIL/CANVIL ▲ WINN VALVES ▲ HINDLE VALVES ▲ NEOTECHA ▲ J.B. SMITH ▲

FIRE PROTECTION ▲ GRINNELL ▲ ANSUL ▲ MATUSEK ▲ PLATT ▲ MUELLER ▲ O'DONNELL GRIFFIN ▲ TOTAL WATTHER ▲ WORMALD

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THINK LOCAL— AND INVADE

Look who's ready to steal the Bells' lunch

Special Report

About a year ago, an AT&T salesman called on Chicago businessman Ted S. Bernstein. Between his home and his small insurance business, Bernstein spends $2,000 a month on local, long-distance, and wireless services. The salesman gave Bernstein a discount on his corporate long-distance service, the same discount at home, and consolidated everything on one bill.

In contrast, Ameritech Corp., his local telephone company, offers no such packaged services and didn't seem to notice that Bernstein's long-distance billing is now done by another company. "I didn't get one phone call from Ameritech," he says. The lack of attention will cost the company. AT&T is getting ready to offer local service in Chicago, and Bernstein says he'll likely defect.

It's the dawn of deregulated telecommunications, and the local phone co panies have yet to prove they get it. The CI of every one of the seven Baby Bells are tell investors, customers, and potential partners t they want to be one-stop shops, offering a co bination of local and long-distance calling, int active television, and information services their customers. But AT&T, MCI, and Sprint aiming for that same converging world and ha spent more than a decade honing their comp itive skills. Plus, long-distance carriers can go ter local markets immediately, while it will ta local companies at least 18 months to win regulatory go-aheads for long-distance.

The Bells could also use a shape-up. Ev after huge layoffs, they're still bloated. AT MCI, and Sprint's overhead averaged 26.4% sales in 1995, compared with 31% for the Be The Bells also have outdated networks. O 71% of their lines connect to digital switches, 100% for AT&T, MCI, and Sprint.

MASS MUTINY? The local gang has a lot to lea about satisfying customers, too. A Deloitte Touche survey found that 40% of business c tomers are "likely" to buy local phone serv from an alternative provider. In a Morgan St ley & Co. survey, 65% of residential callers s they'll consider switching. M gan Stanley analyst Stepha Comfort estimates that the Be could lose 25% of their resid tial customers and 35% of t business market over the ne 10 years. "You have the poten for a massive redistribution the local business," says Stev M. Martin, telecom consultant Deloitte & Touche.

One possible redistributi could result in fewer than sev Bells. "I think that it's likely t one or more of the [regio Bells] will disappear by 200

LOCAL CALLING, BIG BUCKS

DATA NORTHERN BUSINESS INFORMATION

either through an actual collapse or a buyout," says Alan Tumolillo, a consultant with Probe Research Inc. Analysts figure some Bells will group together by geographic proximity—Pacific Telesis Group and U S West Inc., for example. Bell Atlantic Corp. and Nynex Corp. have already studied a merger, but the plan is on hold while they see how the market shapes up. "I think there will be a natural coming together among some of the [Bells], but whether they combine the entire enterprise is another matter," says Bell Atlantic Chairman Raymond W. Smith. Another option: One or more Bells could throw in with a long-distance company.

Don't expect instant upheaval, though. The Bells, after all, have inertia on their side. It took AT&T 10 years to lose 40% of its long-distance market. And after one year of local competition in Roches- N. Y., from the likes of AT&T and Time War- Inc., Rochester Telephone has lost just 3% of customers.

The local carriers also have a huge edge in of- ng a laundry list of communications servic- -they have the wires into nearly every home business in their calling areas. SBC Com- nications Inc., for instance, is getting ready to long-distance and video services in addition wireless and local calling. "Over the next eral years, we'll be able to position ourselves l as full-service providers for our custom- ," says John T. Stupka, head of strategic nning for SBC.

For now, however, the Bells can't offer one- p shopping. They are barred from entering v businesses within their regions right away. ey can't, for instance, own a cable-TV system heir home markets. But away from home y can do virtually anything they want— uding challenging each other in local calling. lSouth Corp. already plans to go after GTE rp. customers in Orlando, and U S West ns to offer local service via the cable sys- ns in 16 states that it will get with the ac- sition of Continental Cablevision.

THING TO SHOW. Video is a favorite Bell get. PacTel and the Bell Atlantic-Nynex tnership both bought wireless cable oper- rs last year. Those systems transmit cable nnels via microwave. Bell Atlantic started an interactive TV system this March in Dover vnship, N. J. BellSouth, SBC, and U S West tinue to experiment with interactive TV.

The Bells are also busy lining up "content." Tel, Bell Atlantic, and Nynex have Tele-TV, a sortium headed by former CBS Broadcast d Howard Stringer. Ameritech, SBC, Bell- th, and GTE formed Americast with Walt ney Co. Both teams are developing interac- TV programming, but have produced none so —a sign that the multimedia future is still a ys off.

There's an immediate prize that more than makes up for postponed video gratification: the $76 billion long-distance market. Some 60% of long-distance calls begin and end within one Bell region, and analysts figure the local companies can easily grab a fourth of that business within a few years.

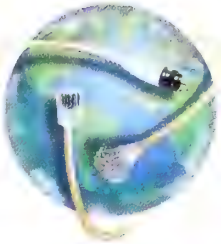
The prospect of that bonanza is what inspired the Bells to push for deregulation and now has their CEOs singing the praises of open markets. "We believe that competition will enhance our growth rate," says Ameritech Chairman Richard C. Notebaert. Nynex Chairman Ivan G. Seidenberg talks about grabbing more and more of the $180 to $210 per month that consumers in his region already spend on online services, voice calling, video rentals, and entertainment. "Our share now is 30%. That's the local part," he says. "By opening up these networks, we will lose part of that 30% but get a bigger share of the remaining part."

Still, Nynex isn't exactly welcoming the competition. No local-service rival has emerged yet in New York, but the company is blanketing the airwaves with ads warning consumers not to fall for any "confusing" offers from upstarts.

FULL-PRESS LOBBY. The Bells, in fact, have often blocked—or at least delayed—competition. SBC sent 42 lobbyists to the Texas state house last summer to convince legislators that it didn't have to provide access to its network to any major long-distance providers. U S West has said it won't negotiate interconnect agreements until the Federal Communications Commission sets the rules. Ameritech, after cutting an interconnect deal with Time Warner Inc. in Wisconsin, refused to make the same deal in Ohio. "I would guess that there was no technical or financial reason," says Terrence L. Barnich, former Illinois Commerce Commission chairman, "which leads me to believe that it was done to hold out the competition."

Such tactics may still work. But in the dawning era of deregulation and converging digital communications, it will take more than that to keep ahead of competition. It may take great services and aggressive pricing—at last.

By Peter Elstrom in Chicago, with bureau reports



The Baby Bells have their eyes on a prize: A long-distance bonanza

PREEMPTIVE STRIKE: *Nynex ads deride rival offers yet to materialize*

Special Report

THE GIANTS AREN'T SLEEPING

Long distance's titans intend to stay on top

At first blush, deregulation might look like a big negative for the long-distance companies. After all, the status quo in their market is pretty cozy: The triopoly of AT&T, MCI, and Sprint controls almost 90% of this $76 billion market. The fourth-largest competitor, WorldCom Inc., has just 4.8%. Despite spirited ad battles, prices move in a nice orderly way—lately they've been inching up. And profits are the best in telecommunications.

Deregulation will spoil that party by admitting eight well-heeled and hungry competitors—the seven regional Bell operating companies and GTE Corp. Wall Street is already nerv
Shares of AT&T, which has the most to l
have dropped by 9.4%, to around $61, since
Telecom Act took effect in February.

Wall Street may be missing the big pict
though. "The Bells have a clear advantage sh
term, but there is a big difference over
short run and the long term," says T. M
Maybell, managing director of Merrill Lync
Co.'s telecom investment banking group.
long-distance carriers have the marketing sk
the brand awareness, and the technolog
knowhow to put together packages of local, l
distance, data, and video services. Long-te
that puts them in better shape to become
century "supercarriers"—single sources for
communications services. "It's no longer a qu
tion of how large a share of the $76 billion l
distance market you can get," says UBS Sec
ties Inc. analyst Linda Meltzer. "It's a quest
of how big a share of the $500 billion conver
or integrated market they will get."

NOTHIN' BUT NET. AT&T has been out front
pursuing that prize. It started in 1994 with
$12.6 billion acquisition of McCaw Cellular, va
ing instantly from zero to first place in cellu
In March, AT&T rewrote the economics of the
line market with its dramatic offer of unlimi
Internet access for only $19.95 a month—an
free one-year trial offer for its 80 million lo
distance customers. On Mar. 25, it announ

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†We calculated resale using avg. trade-in values for '93 & '94 models of competitors mentioned and those in Ward's large class vs. MSRPs published in Oct. '94 through July '95 N.A.D.A. *Official Used Car Guide*® monthly editions. Use of these values does not constitute N.A.D.A.'s endorsement.
††See limited warranty & restrictions at dealer. Excludes normal maintenance & wear items.

The Bells are well-heeled and hungry. But the Big Three have the knowhow

plans to market DirecTV's satellite-TV service. It had already bought a 2.5% stake in the Hughes Electronics Corp. venture. AT&T will offer special discounts on DirecTV to its long-distance and Universal Card customers. "We intend to be the premier deliverer of a whole range of services: local, long distance, wireless, entertainment," pledges AT&T Chairman Robert E. Allen.

MCI and Sprint are determined to match AT&T service for service. MCI sold 20% of its shares to British Telecommunications Ltd. in 1994 to finance its own diversification plans. Its first move: spending $2 billion for 13.5% of Rupert Murdoch's News Corp. MCI then went out and bid $682 million in January for a license to launch its own DBS service, which it will build in partnership with News Corp. The company recently spent a total of $1.2 billion on a cellular phone reseller and a computer systems integrator and teamed with Microsoft Corp. to develop new Internet services.

Sprint, meanwhile, is building one of the nation's largest wireless calling networks using the new personal communications services (PCS) technology. PCS works much the same as cellular, delivering calls over radio waves, but is all-digital and cheaper to run. Sprint's partners in the venture: three of the largest U.S. cable operators, reach a total of 39 million households.

All these supercarrier visions will come to naught, though, if the long-distance companies don't grab local customers before the local companies grab theirs. This is where the long-distance companies face the biggest risks. It will take two or three years and huge investments to make the local connections, while local phone companies—once they get the nod from the Federal Communications Commission—can move into long distance without having to spend much at all. The reason: Those long-distance networks crisscrossing the nation have lots of excess capacity available to resellers. This has already forged a lucrative business for hundreds of long-distance small fry that buy service from the Big Three at discounts of 40% or more and resell it to consumers at a profit.

Special Report

Reselling is how the Bells will get into long distance—and how the long-distance companies will get their start in local service, too. But there's a critical difference. Because there is only one network per region, there is less excess capacity. As a result, the Bells are arguing for a resale discount—which will be set by the FC of around 5%. "The law couldn't be more sided," says analyst Scott Cleland of the Wa ington Research Group. "The teleph companies get to resell long distance at a 30% 60% discount, while the long-distance carr can expect no more than a 5% to 20% discou

The alternatives are costly. Building wire every home is out of the question: Industry perts estimate that it would cost AT&T $5 bil and take the rest of the decade to connect ev home in just the top 50 markets. Wireless ph ing is another option and, indeed, McCaw lular (now AT&T Wireless) along with a plan PCS network, will cover 80% of the nation's p ulation. But it will be at least three years be this setup can compete with wired serv "Wireless technology over some period of t will provide a way to directly reach hom says Joseph P. Nacchio, head of AT&T's consu calling business. "But I take a relatively mo view of when that will happen."

There are other ways to circumvent the B AT&T has signed agreements with at least competitive access providers (CAPs), compa such as MFS Communications Co. and Intel Group. CAPs have high-speed lines in major c that connect corporate customers directly long-distance nets. These corporations are best Bell customers. They generate lots of t fic and are prospects for high-speed data li videoconferencing, and consulting services. T are also the most likely to switch local carri say numerous surveys.

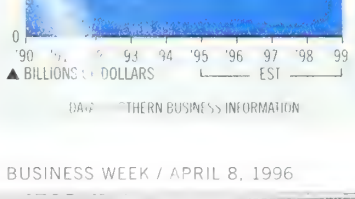
CABLE CHAOS. Then there's cable. As cable systems gain voice-calling capabilities, they provide the links to millions of homes. Sprin putting its heaviest bets on cable. It wants combine the nationwide PCS network it's buil with cable-TV systems that will have voice video. The grand scheme: offer consumers a count on wireless calling, say, if they also sig for local phone service, long distance, and c TV, all under the Sprint brand name.

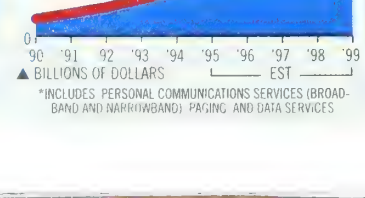
The venture was set up last year, but it run into a big glitch. The cable partners—T Communications, Comcast, and Cox Comm cations—couldn't come to an agreement o formula for dividing up revenues from the ferent parts of the package, so each is now gotiating its own deal with Sprint. "There's guarantee, but there's a very high probabi that the deals will be completed," says Sp Chairman William T. Esrey.

That could leave Sprint scrambling to m the local connection. And in the short term least, it may be far easier to buy rather t build. That's MCI's approach to cellular, for stance: "We're not going to build local wire services," says President Gerald H. Taylor. " can lease those facilities cheaper."

But will reselling be a viable long-term st egy? Not according to Merrill Lynch's May "If you don't own the asset, you're too vuln ble and too dependent on the competition." that does not sound like the model of a 2 century digital supercarrier.

By Catherine Arnst in New Y with bureau rep





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-WAY OR
IO WAY
FOR CABLE?

's still chasing the
nteractive-TV dream

t wasn't that long ago that your TV cable was destined to be the most important wire in your home. The cable industry, after years of borrowing heavily to string the country h coaxial cable, predicted it would do more n just deliver TV programs. The promise of le was that you could interact with the net-rk, ordering a nearly endless supply of movies l the latest fashions or browsing digital li-ries. In a test that became symbolic of the in-stry's boundless enthusiasm, Time Warner . announced that by April, 1994, it would e 4,000 homes in Orlando to fulfill that vision. The Orlando test, like many of the cable in-stry's I-way forays, has been anything but dazzling showcase that was promised. Time rner finally finished wiring the homes a few nths back. By then, its ambitious online mall l been scrapped. The most popular transac-n, aside from ordering up movies and games, been buying postage stamps. Even more dest tests by cable operators, of simpler dig-l set-top boxes for ordering pay-per-view vies without using a phone, languish years be-d schedule because technical problems made ts prohibitive. "We're really not sure when e interactive TV will come," admits James O. bbins, chief executive of Cox Communica-ns Inc.

It can't come soon enough for the cable-TV in-stry, which is counting on deregulation to en-le it to restart its plans for digital conver-nce. The industry still has a huge advantage: coaxial cable systems reach 66% of the coun-and can, with the right equipment, deliver more services than the puny copper wires t link most phone systems to the home.

STER, FASTER. Now the cable industry has a w way to play on the I-way. It is betting on gh-speed modems that can be used with both s and personal computers. These devices uld be capable of pulling pages off the World de Web at 1,000 times the speed of conven-nal modems. The industry still has to work t some problems, including the $500 price for each modem. Also, a lack of nationwide ble-network standards severely complicates forts to come up with a universal device.

Undeterred, cable companies such as Tele-

Communications Inc. and Cox have ordered 500,000 cable modems. They say they intend to begin offering the new gizmos to Web surfers this summer. By 2000, as many as 7 million homes may have cable modems, predicts Forrester Research Inc., pulling in $1.3 billion in new revenue.

Special Report

Cable operators are hoping the pure speed of the modems will turn couch potatoes into information addicts. At Boston College, where Continental Cablevision is testing 9,500 cable modems with students and teachers, they're a hit. But the real payoff will come if cable operators can sell them as part of a package of services, along with TV shows and voice services. Jones Intercable Inc., which delivers TV programs to 40,000

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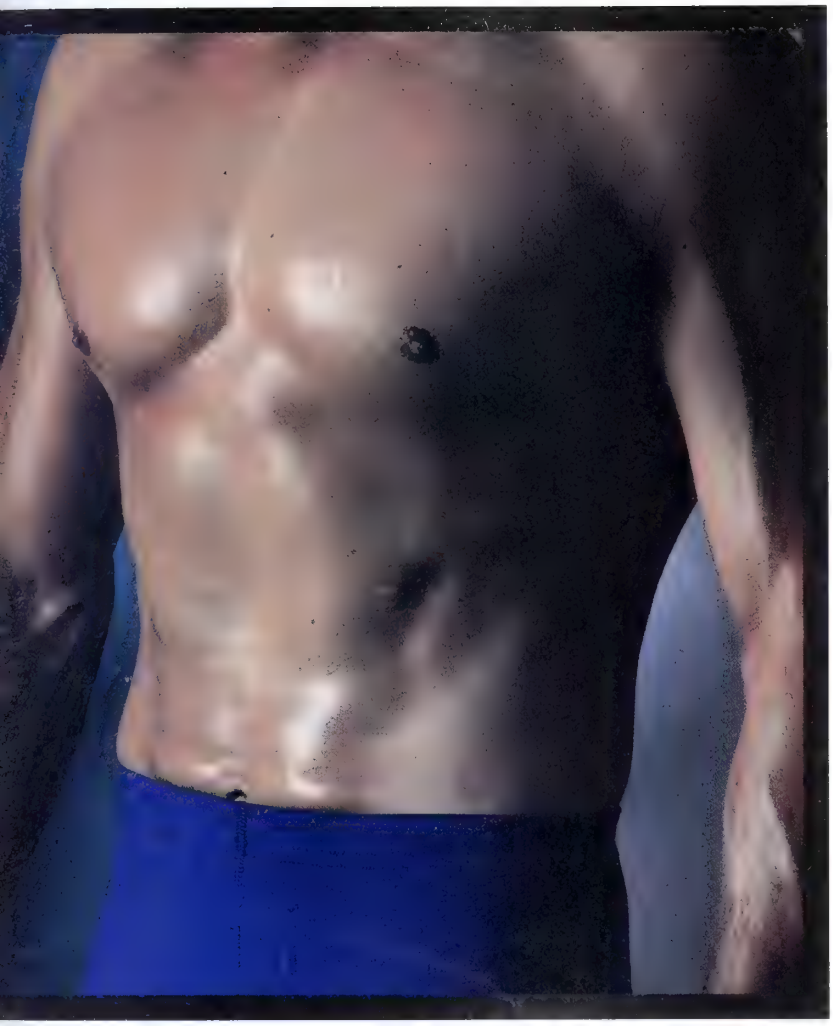

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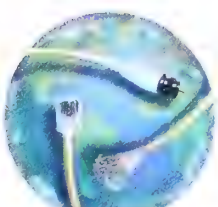


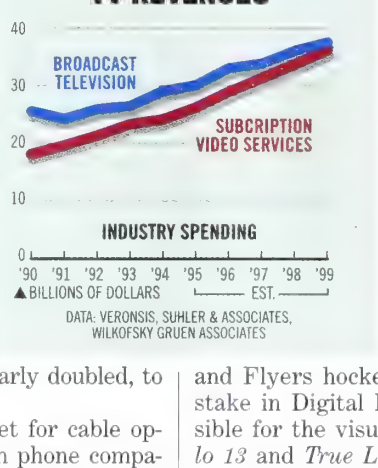
Cable players have one big strength: They know how to compete on content

subscribers in Alexandria, Va., figures it can undercut Bell Atlantic Corp.'s phone prices by 20% by offering the two services in a single package to apartment dwellers there. By the end of the year, the company plans to offer its own online service as well as phone service to individual homes.

Jones's big advantage is its alliance with Bell Canada International, which owns 30% of the Denver-based cable operator. Such rich relations are going to come in handy. Just upgrading cable-TV systems to carry two-way conversations can be costly. By 1999, cable companies will spend $2.36 billion a year to upgrade their systems for new services such as voice, up from $1.78 billion a year ago, estimates Frost & Sullivan.

Will the investment pay off? The experience of Time Warner, which is testing local service in Rochester, N. Y., is not encouraging. Despite offering discounts of up to 10% off, sign-ons for the service have been slow. Time Warner refuses to provide numbers, but Rochester Telephone says it has only lost 3% of its customers to the media giant and nine other rivals since the market was opened up a year ago.

So the phone companies aren't quaking yet. Cable operators "don't have the capital or the technology," says Bell Atlantic Chairman Raymond W. Smith. In 2005, the cable industry will generate $5.9 billion in telephone revenues, figures Paul Kagan Associates analyst Sharon Armbrust. By then, however, the total market will have nearly doubled, to $300 billion.



TARGET PRACTICE. The safest bet for cable operators, then, is to team up with phone companies. TCI, Cox, Comcast, and Continental have been doing that for years through their jointly owned Teleport Communications Group, a competitive access provider that offers voice and data services to businesses in major U. S. cities.

TCI, Cox, and Comcast are now aiming at the consumer market through their joint venture with Sprint, the No. 3 long-distance carrier. Their plan is to build a nationwide personal communications service (PCS) network, a low-price version of cellular that may be able to compete with wired local calling. The consortium has started selling the service in the Washington (D. C.) area and plans a rollout in up to 25 more markets by late this year. But a broader agreement to jointly offer wired local service, long distance, and cable TV with Sprint is being renegotiated because the four partners couldn't agree on how to divide revenues.

Meanwhile, with more than 63 million homes spending nearly $25 billion a year on cable-TV services, the business has become an inviting target for phone companies. U S West Inc. has bid $10.8 billion for Continental, the industry's third-largest player. Ameritech Corp. has received approval to begin cable operations in markets. Using the latest in fiber technol Ameritech says it can offer as many as 90 ch nels to the region's 400,000 customers now viced by cable. And AT&T has announced plan compete against cable operators by offering DirecTV direct-broadcast satellite (DBS) servic its long-distance customers. MCI Commun tions Corp., in partnership with News Co plans to launch its own DBS service in 1998.

HOORAY FOR HOLLYWOOD. The cable compa feel the pinch. Partly to fend off Amerit Cablevision Systems Corp. spent $300 mil rebuilding its system in Cleveland last Nov ber and has begun work as well in two s urbs. In Cleveland Heights, that will enable cable system to nearly double the 40 channe now offers. In the Detroit suburb of Northv Continental Cable countered Ameritech's vances by offering subscribers free HBO if t signed on for a year.

Continental's approach underscores one the strengths of the cable players. They kn how to compete on cont That's why you see so m deals between cable ope tors and movie studios, p lishers, sports franchis and so on. The operator and their emerging comp tors—need programming shove through all those h speed lines. Witness T Warner's willingness to $7.5 billion to buy Tur Broadcasting System, wh owns CNN. Or Comcast's cent purchase of Philadelphia 76ers basket and Flyers hockey teams, and Cox's one-th stake in Digital Domain, the company resp sible for the visual effects in the movies *Ap lo 13* and *True Lies*.

With all this frenzy for content, perhaps body is happier about telecom deregulation t Hollywood. At least two cable companies expected to bid for MGM/UA, the debt-strap studio that French bank Crédit Lyonnais put on the market. Walt Disney Co. signed o the Americast consortium with Ameritech, Communications, BellSouth, and GTE to prov an animated channel navigator and speci made programming for a new cable chan The partners will all telecast it to their s scribers. As a bonus, the phone compar agreed to offer the Disney Channel in their sic cable package, forgoing the added cha for a premium service.

Showbiz alone, however, will not keep ca competitive in a deregulated world. Ultimately must deliver on the interactive vision it long promised. "We keep hearing about th high-speed modems, but we're not seeing ma of them," sneers Greg Brown, president Ameritech's new-media unit. "Just like th digital boxes." Cable operators can only h their customers have short memories.

By Ronald Grover in Los Angeles, with El beth Lesly in New York and bureau reports

Special Report

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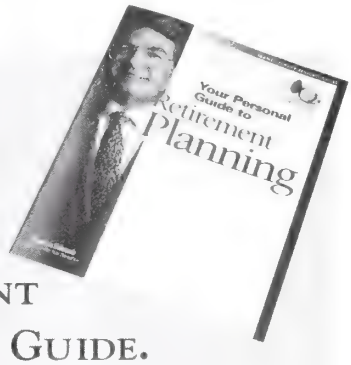

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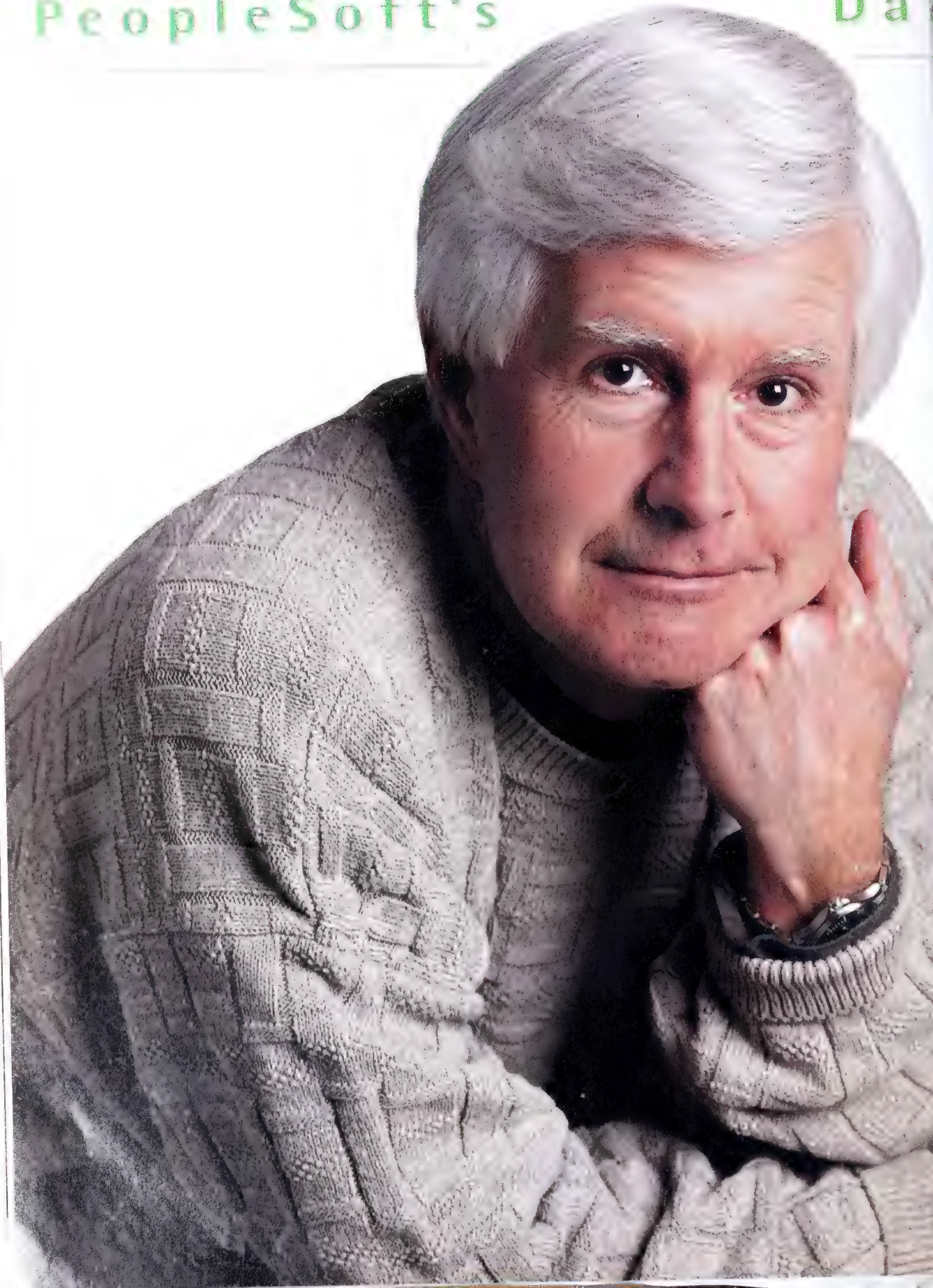

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PLEASE HOLD FOR NEW TECHNOLOGY

The basic science is in hand; costs are not

Special Report

Donald Green spends his days selling the kind of high-speed communications gear that is helping pave the Information Superhighway. But at night, when he tries surfing the Internet from his home in Santa Rosa, Calif., he finds that the out-of-date phone circuits serving his town, 50 miles north of San Francisco, won't let his modem go any faster than 2,400 bits per second—too slow to make Net cruising worthwhile. So, says Green, when he hears that the I-way is just around the corner, "I kind of laugh a little. You have to recognize the limitations of capital and existing plant."

Limitations? In the New Age of telecommunications? But weren't microchips and optical fibers supposed to mak of these little problem away?

Not quite. Sure, the ence for the I-way is we hand. In March, for exar three labs announced they had managed to pu trillion bits of data per ond over a single hair optical fiber. That's en to carry 12 million sim neous conversations download 100 two- movies in a second. Fo airwaves, companies su Analog Devices Inc. in wood, Mass., are develo chips for cellular-phone stations that can unders calls in any format jus switching to the right coder program. They c "software radio."

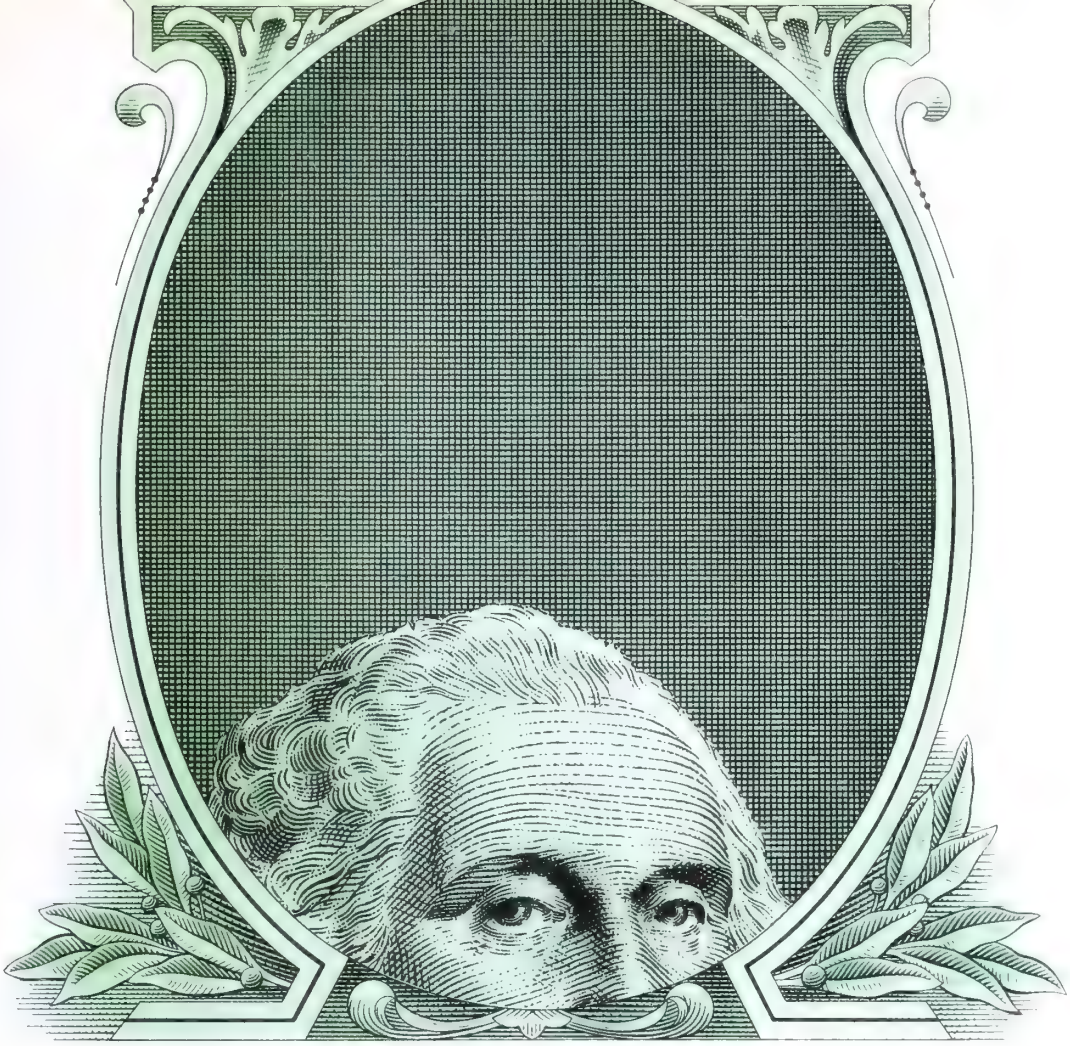
But paying for this of technology is another ter. Time after time, con nications companies sketched out bold plan extending advanced di networks to consumers retreated when it bec clear that they could n so profitably.

Case in point: Around 1990, the phone panies were going to snake an optical fib every home. But that would have cost well $1,000 per home. So they decided to ex fiber only partway and use coaxial cable fo rest. By last year, that, too, seemed a bit ric a few phone companies began thinking of w ing higher speeds out of their existing twi pair copper wiring, which they would lea place for the "last mile" to the home.

Cable operators got cold feet, too. Tw three years ago, they announced plans to i millions of digital set-top boxes. Most of t plans have been cancelled or postponed as th erators began to realize how much it would to buy the boxes and upgrade their networ use them. Some operators would have to analog channels off the air to make room for ital, angering viewers. Now, Scientific-At Inc. has cashed in on the resistance to di by selling more than 900,000 "advanced an boxes that enable such features as extra-i mative program guides. They cost operators to $200, vs. more than $500 for a digital bo

CHEAPWARE. Lately, cable operators have emphasized interactive television—a c scheme that depends on banks of comp and disk drives to serve up movies and h shopping. Instead, they're jumping on the ternet, ordering speedy cable modems. But t will require upgrades of cable systems, too

The technology retreat, however, may be ing. The cost of cutting-edge gear such as optoelectronic components for fiber networ dropping. And now that the deregulation



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has passed, companies have a far clearer picture of where they can invest in such technology and expect a profit.

For example, prices are falling for high-speed data connections to the home—higher-speed ones, anyway. Donald Green, the Santa Rosa resident with the bad phone line, is chief executive of Advanced Fibre Communications in Petaluma, Calif., which sells boxes that bring digital signals closer to rural homes. Typically, rural phone systems have long runs of wire between switches and homes. That distance wreaks havoc with high-speed communications signals. Using Advanced Fibre's device, which costs $4,000 plus $150 per line, phone companies can upgrade rural lines so customers can use high-speed modems or subscribe to ISDN (integrated services digital network), a data service that operates at 128 kbps.

Meanwhile, companies such as Aware Inc. of Bedford, Mass., are pushing technology that would let phone companies squeeze more capacity out of existing twisted-pair phone wiring. Asymmetric digital subscriber line (ADSL) sends megabits of data over ordinary twisted-pair phone wiring by exploiting frequencies as high as 1 million cycles per second. Signals on copper wires lose power rapidly at those frequencies, so ADSL requires sensitive signal-detection chips. Aware uses detection methods it developed for the U. S. military and spy agencies. To hedge its bets, it is testing versions that work over coaxial cables. Says CEO Jim Bender: "We're supplying armament to both sides."

DATA BROWNOUTS. Of course, once the high-speed capacity is in place, people are sure to use it. Even now phone companies are beginning to see that the Info Highway is going to be a lot like the concrete kind—the more you build, the more people will get on, and the more traffic congestion will result.

Already, the explosion of Internet use has pointed up the shortcomings of a phone system designed for voice calls when the online crowd plugs in. Pacific Bell, for instance, offered ISDN service with no per-minute charge on weekends, only to learn too late that Web surfers who use it to reach their Internet access providers tend to stay on for ho

To keep Internet traffic from knocking v callers out of the box, Pac Bell and others having to spend hundreds of millions of do beefing up their switches and the trunk lines tween them. The phone companies see a chronous-transfer-mode switches as their mate salvation. For efficiency, ATM bre messages into packets and stuffs data pac into the spaces between voice and video pack But with so much invested in their conventi switches, phone companies are likely to l voice calls on those devices for years to co

The Net has its own technical limitations cope with expone traffic growth, co nies and Internet erators keep ad routers—special computers that packets' addresses send them on t way. But that me that a message Web page may hav hop through 20 more routers to r its destination. Rou can spend more t figuring where to the hot potato packet than doing actual passing.

That's one caus Internet "brownou in which respo times become into ably long. NetStar of Minneapolis is p ing a solution: an ternet redesigned fewer, more powe routers, so pack take fewer h Something has change, says Mark Garver, NetStar's president for sales marketing: "The U Internet is about reliable these day the phone system in Russia."

Those are hardly the only hurdles. The also security and the ability of diverse netw to work together. For the phone companies, of the biggest problems is their antiquated puters for call-handling, maintenance, bill and the like. It costs a company such as Ny Corp. some $200 million to $300 million a simply to maintain mainframe software grams, which are in some cases decades The way it's stored now, a phone compa treasure trove of data on customers is largely accessible.

That problem, like the others, will eventu be solved because there's an economic incen to solve it. But only when the pain of inac becomes greater than the pain of action.

By Peter Coy in New

Building the I-Way: Why Technology Matters

It may be decades before every home is wired with fiber optics. Until then, engineers are struggling to make the best out of lower-capacity technologies. Here's what makes it so tough:

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COAXIAL CABLE These TV systems were built for broadcast, not interaction. They need new amplifiers that work in both directions. The frequencies available for data and phone calls are the low ones that are most susceptible to electromagnetic static—say, from your vacuum cleaner.

WIRELESS Digital cellular networks can't handle heavy-duty data or video, so they won't suffice as the lone pipeline to the home. As antennas in the sky, satellites are great for broadcasting television. But fitting them to handle lots of two-way communication is immensely expensive.

The Net is "about as reliable these days as the phone system in Russia"

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SHOWTIME FOR THE WATCHDOG

Now, the FCC must set the rules for reform

Special Report

As the telecom reform act ushers in an era of freewheeling competition, federal regulation will fade away, right? Wrong. The Federal Communications Commission's legions will be busier than ever writing the rules to implement the law's sweeping changes and create a smooth glide path to full competition. "This is the most intense and important time in the FCC's 62-year-old history," boasts its chairman, Reed E. Hundt.

The agency wound up with this huge role in part because of the drawn-out legislative process that produced the bill. In order to get telecom reform passed—after 10 years of trying—Congress booted many of the thorny details to the FCC. For instance, News Corp. Chairman Rupert Murdoch and his fellow broadcasters tried last year to stop Congress from closing a loophole that let the broadcasters get around limits on station ownership. That issue was such a hot potato that it might have tied up the entire bill. Now, it's in the hands of the commission.

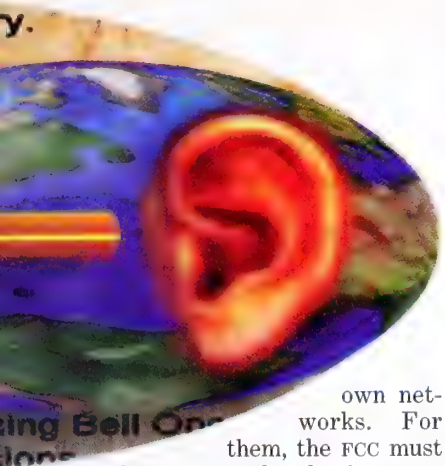
There are dozens of other unresolved issues the FCC will address—and in doing so, shape policy. "What they do will determine the future of competition in communications," says Leon M. Kestenbaum, vice-president for federal regulatory affairs at Sprint Corp. The states have a role, such as overseeing local rates and verifying that the Bells comply with a checklist of conditions to prove their networks are "open." A the Justice Dept. will be looking at poss antitrust issues. But the big questions of moment will go to the FCC. "The FCC has come the new battleground," says Colum University economics professor Eli Noam.

The No. 1 issue will be introducing comp tion into local calling. The agency must rejig a patchwork of subsidies that have been use ensure "universal" local service. Phone com nies usually charge high rates to businesses- keep residential rates low. But with rivals g ning for business customers, local compa can't be expected not to cut business rates. law calls for the FCC to implement a subs pool that will be used to pay for cut-rate ser to poor and rural customers. But the FCC m figure out who pays and what services shoul subsidized: just dial tone—or computer link schools, too?

DEGREES OF SEPARATION. At the same ti the agency must develop rules that give new cal players a fair shot against existing mono lies. Many entrants into local calling will start reselling capacity from existing carriers—rat than building their own networks. How m the incumbent phone company charges will up to the FCC. The law defines the whole price as "retail less avoided costs"—what the cal company doesn't pay in marketing, custo service, and billing when dealing with resell But how much are such costs? The Bells they're minimal because they want to cha as much as possible. The local upstarts, includ AT&T, MCI Communications, and Sprint, ar that avoided costs are quite high—justify lower rates to them.

The FCC must also figure out how to "unb dle" local phone service. In the past, the Bells fectively barred resale by bundling all servi together. For example, they would force rivals buy switching as well as capacity, even if they needed was capacity. That made resale profitable. The new law requires local carrier price services separately, but the FCC deci how. The Bells want the FCC to allow them factor in costs such as depreciation. Rivals w to pay only for the actual cost of the service

Some new entrants may choose to build th



own networks. For them, the FCC must figure out rules for intercong with existing local networks. The new s ambiguous on this issue," says Heather tt-Gold, president of the Association for Telecommunications Services. It says rihould be able to connect at "any techni-easible point." How the FCC clarifies that could have a big effect on the costs of onnecting.

commission is also working on more 8 new cable rules. Under the new law, all egulation will be removed in 1999. If a caerator wants to be free earlier, it must the FCC that there's "effective competition" from at least one rival. Right now, the FCC defines that to mean a rival can reach 50% of a market and has 15% of potential customers. Congress has the FCC examining that rule. The cable industry wants the numbers halved or dropped. Phone companies and other cable rivals want them left as they are.

BOX BATTLE. Cable companies are also watching how the FCC rules on cable-converter boxes. It's up to the FCC to determine whether they will be sold, the way phones are, or simply leased, as they are now. In Congress, electronics retailers such as Circuit City Stores Inc. lobbied for box sales. But the prospect upsets cable operators, which reap big profits on rentals. Box makers also fight the notion of selling—because it might require the industry to settle on a universal standard. That would make it possible to move boxes between systems but might complicate plans to upgrade networks, argue box makers. Retailing "would be a serious problem for the industry," says General Instrument Corp. Chairman Richard S. Friedland.

While the FCC is working through all these issues, Congress will be watching. And once the new regs are written, chances are lawmakers will consider downsizing the agency. But for now at least, the FCC's Hundt doesn't have time to worry about the future. He's too busy launching the deregulation that could seal the FCC's fate.

By Mark Lewyn in Washington

Should cable boxes be sold like phones or rented as they are now? It's up to the FCC

EUROPE'S MARKETS ARE GETTING REWIRED, TOO

he U. S. may be charging ahead in telecommunications deregulation, thanks to its broad new s. But the forces pushing Ameri-s to open up communications rkets are sweeping the globe. eady, developing nations such as ile, Malaysia, and the Philippines e dismantled state-owned phone nopolies and invited competi-n—and badly needed investment. ey're beefing up communications rastructures to leap into the ormation economy.

Europe won't be left behind. Eng-d, Sweden, and Finland have open rkets now. On Jan. 1, 1998, 15 Eu-ean Union countries and neigh-s Switzerland and Norway are e to liberalize theirs. Across Eu-e, rules are already being loos-ed. Competition has intensified in rkets such as corporate networks d mobile-phone services, which e been liberalized since 1990. New players are investing billions dollars in networks and in building ances. Italy's Olivetti has a joint nture with Bell Atlantic Corp. to er corporate network and data services. It plans to team up with France Télécom and Deutsche Telekom to challenge the monopoly Telecom Italia. In Germany, Mannesmann and Deutsche Bank are offering services through Communications Network International.

BACKBONE SYSTEMS. Starting in July, new competitors will be permitted to lease phone lines from cable companies, railways, and utilities, bypassing the monopoly of national operators. That paves the way for a potential heavyweight: Hermes Europe Railtel, a consortium of railway companies backed by financier George Soros. It is in the first phase of laying a $1.2 billion trans-European backbone network. The plan is to sell capacity to other phone companies, corporations, and new phone upstarts. Utilities such as Germany's RWE Group, Veba, and Viag, and smaller electric companies already offer private corporate network services on their backbone systems and are poised to resell more capacity.

As in the U. S., deregulation is creating lots of work for regulators. The European Union recently backed Esprit Telecom, a Dutch seller of corporate network services, in a complaint against Spanish monopoly Telefónica de España, forcing it to offer Esprit leased lines. In Germany, upstart operators cried foul when Deutsche Telekom aimed to slash rates for corporate networks by up to 35%. They complained that the state-owned giant—due to be privatized in November—wants to kill competition. "We will exhaust every avenue to protect our interest," says Ulf Bohla, managing director of Vebacom, which is owned by Veba and Cable & Wireless PLC. It plans to invest $2.2 billion over five years and aims to be Germany's No. 2 phone company.

While consumer markets haven't budged much, the fight for lucrative corporate calling will be fierce. As a result, in five years, the monopolies could lose up to 40% of their markets—and 70% of their profits, says Steve Morgan, a consultant with London-based Logica. That's a wake-up call no one can miss.

By Gail Edmondson in Paris, with Karen Lowry Miller in Hanover

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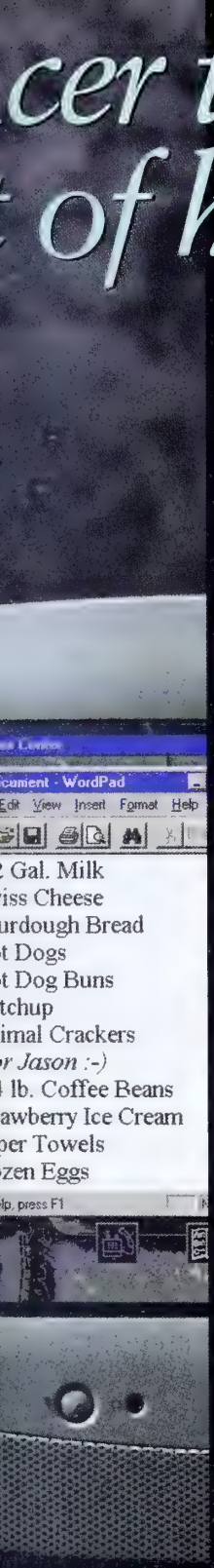

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STRATEGIES

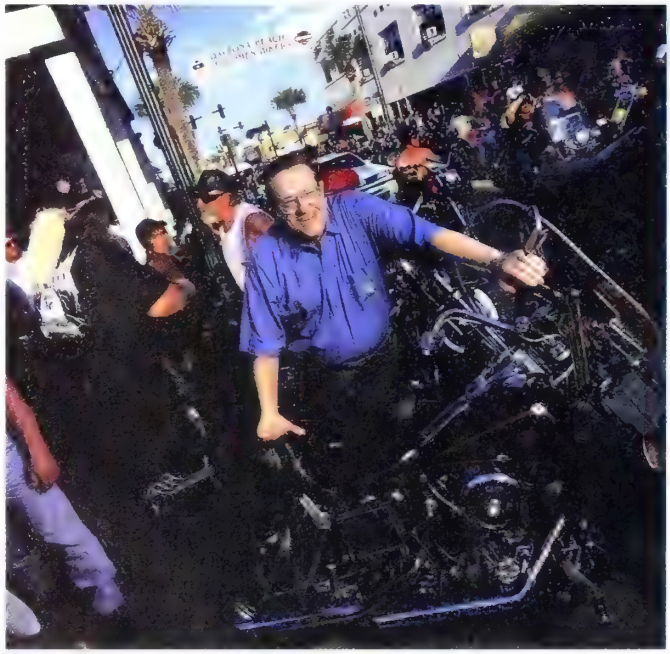
TUNE-UP TIME FOR HARLEY

It must soothe impatient customers and fight imitators

It's Bike Week, Harley-Davidson's annual early-March party, and the streets of Daytona Beach, Fla., are filled with some 400,000 Harleys. But the carnival mood has turned a bit sour for 73-year-old Robert Wanta, who has cornered Harley CEO Richard F. Teerlink to let off steam.

Wanta is ready to trade his BMW and Honda cycles for his dream Harley, a chrome-and-gold Dyna Super Glide. But his local Tampa dealer wants a 47% markup above the $10,195 list price. "I'd love to buy that bike, but I'm not going to pay $15,000," Wanta complains. Listening intently, Teerlink says: "I hear what you're saying. But we're going to get you as a Harley rider."

For years now, Teerlink has been able to say that and mean it. Harley-Davidson Inc. has roared back to life since 1985, when shoddy quality and a glut of cheap Japanese bikes left it near bankruptcy. Today, Harley's low-slung "Hogs" grab more than one-fifth of all U.S. bike sales—and more than half of the fast-growing $1.3 billion market for heavyweight cycles. And a huge trade in used bikes—fostered by Harley's deliberate curbs on output—makes them worth more secondhand than new.



BIKE WEEK: *CEO Teerlink in Daytona Beach, Fla., for Harley's annual March party*

But to hang on to its increasingly impatient customers and fight off a bevy of new Japanese competitors, Teerlink must shift the Milwaukee-based company into higher gear. Harley must boost production while maintaining its cult-like appeal. "We've been blessed with a heritage," says Teerlink. "But we can't simply rely on the mystique."

The balancing act will be delicate. But Teerlink, who joined Harley in 1981 as chief financial officer, has faced tougher problems: He negotiated the financing that kept Harley out of bankruptcy in 1985. Four years later, he became CEO, succeeding Chairman Vaughn L. Beals Jr., who began the turnaround. Thanks to protective tariffs (since removed), a total manufacturing overhaul, and the marketing of Harley as the essence of Americana, the company has had the wind at its back for years. Since 1991, earnings have jumped 130%, to $111.1 million, on sales up 85%, to $1.3 billion. Cycle output has risen 50% since 1992.

Still, success has brought new problems. Conservative to a fault, Harley builds fewer bikes than it can sell; annual production runs 25% to 40% below estimated demand. In part, that's because Harley can't forget the 1980s, when it ended up with huge unsalable inventories. Harley also realized that scarcity made its bikes more desirable.

Now, however, customers are grumbling that Harleys are too hard to get, with waiting lists of up to three years for its popular Road Kings. That has led to outrageous dealer markups—and dealers aren't the only ones living h on the Hog. Buyers also order bi and quickly flip them. Says Irvin Fosaaen, president of the dealer a sory council and owner of a Wau (Iowa) dealership: "We've seen pe buy a new Harley and then sell it in parking lot for $4,000 to $5,000 mor

"RUBBIE" RIDERS. So Teerlink is add a third manufacturing plant, which take capacity from 115,000 to at le 200,000 by 2003. "Our goal is to ev tually run production at a level that's ways one motorcycle short of dema he says. In March, he sold Harley's $ million Holiday Rambler recreatio vehicle unit for $59 million to Mor Coach Corp., based in Junction C Ore. Wall Street gave both move green light, bidding the stock up this year, to a 52-week high of ab 39. Analyst Ronald A. Glantz of D Witter Reynolds Inc. thinks Harl earnings will double in five years.

HARLEY REVS UP

BOOST PRODUCTIO Harley-Davidson will nearly double bike capacity, to more tha 200,000, by 2003 and push into sports bikes

IMPROVE DEALER-SHIPS It's upgrading customer service, revamping ordering systems, and expanding store space

GEAR UP OVERSEA Harley is strengthenir the dealer network an tailoring products for Europe, Asia, and Latin America

Demographics help. Harley's big, c fortable cruisers appeal to baby boom looking for an easy ride. These da the Harley rider is as likely to b "rubbie" (rich urban biker) as a re "The industry owes its health to boomers," says motorcycle industry c sultant Don J. Brown of Irvine, Cal

Big cruisers now make up 44% of U.S. motorcycle sales and grew 11 last year—well above the 8% growth cycle sales overall. It's no wonder Hon Kawasaki, and Yamaha have recently troduced high-tech Harley lookalik Even Earl K. Werner, Harley's chief gineer, is impressed with the technol "In some cases, they are as good as

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not better" than Harleys, he says. Still, Harley has something even rivals admit they lack: intense brand loyalty. "The Harley audience is granitelike, and most buy on emotional and lifestyle issues," says Robert Moffit, vice-president for sales at Kawasaki Motors Corp. USA.

To help keep rivals at bay, Harley has boosted its capital spending from 1995's $110 million to between $150 million and $175 million annually. Besides the new plant, the money will go to such projects as a new $25 million design and engineering center in Milwaukee and customizing colors and handlebars.

SMALLER SPORTSTERS. Harley, which now exports 30% of its cycles, also plans to target European, Asian, and Latin American markets with bikes designed for local tastes. Sidecars for Japanese buyers are under study. And to add share without diluting its brand, Harley is using its joint venture with Buell Motorcycle, based in East Troy, Wis., to sell cheaper, smaller sportsters.

But will the ramp-up satisfy Harley's frustrated customers without causing the organizational problems that have hurt in the past? Although manufacturing quality, once a serious issue, is much improved, earlier efforts to boost production have hit snags. The last time Harley upped output, in 1993, it so underestimated demand that its plans were outmoded before work began.

And elsewhere, snafus continue. Last fall, inadequate computer ordering systems left many dealers with too much clothing and too few parts. The problems led Harley to report disappointing third-quarter earnings of $23.7 million, virtually flat with the previous year's quarter. Harley is revamping its system, but the problems left some dealers with hard feelings. "Camaraderie needs rebuilding," says Fosaaen.

But Harley worries that some dealers may be out of touch with the new breed of riders. To meet the needs of first-time buyers and move more merchandise, dealers have been told to exp their stores and add staff. At rall Harley now surveys customers on d ers: Top scorers often get first dibs new bikes. Along with better custon service training, Harley hopes s moves will end overcharging.

To keep riders on board, dealers also being urged to bolster the activi of local Harley Owr Groups (HOGS), the cl that gather for ri and events. Big HOG lies are scheduled this summer in Eur Asia, and the U. S. targets are people Lore Lee Howell, 60 Conroe, Tex.—dressed, like her husb in black jeans, purple shirt, and bl leather vest. She came into town abo her new Harley sportster and say has changed her life. "I got m Harley. Now I'm classy," she says. N by, William Shull, a rider from Can Ohio, agrees. He insists that "anyb who owns a bike eventually ends with a Harley." As long as they wait a few years.

By Richard A. Mel in Daytona Be

ROAD KING

The wait for one of Harley's most popular models can be three years and has led to outrageous dealer markups

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DEALS

CHUCK WATSON'S POWER PLAY

He has Chevron backing NGC's one-stop "energy store"

Ask Chuck Watson, chief executive of energy wholesaler NGC Corp., how he envisions the energy business of tomorrow, and he draws quite a picture. With deregulation of electric utilities fast approaching, Watson thinks companies will one day shop for energy the same way people buy groceries. They'll stock up on oil one week, natural gas the next. And if electricity is dear and gas is cheap, they'll simply buy gas and pay a generating plant to convert it to electricity.

Lots of oil and gas executives dream of assembling a one-stop energy outlet, but few have taken the notion as far or as fast as the 46-year-old Watson. In 11 years, the silver-haired Texan has built NGC from a tiny, failing gas-trading house into a fast-growing energy empire. Now some big-time players are signing on to Watson's vision of a one-stop corporate "energy store." On Apr. 1, Chevron Corp. was set to ink an agreement to turn over its $3 billion North American natural-gas and gas-liquids business to NGC for a 25% stake in NGC and $300 million in cash. The deal, which will make NGC the largest wholesale buyer and seller of gas in the U.S., is expected to close by June 1. "This is an opportunity to throw in with a company that has shown it can grow," says Ray Galvin, president of Chevron USA Inc. Adds Watson: "This combination has no equal."

NGC hopes to carve out a niche as deregulation of the lucrative electric-utilities market nears

BEYOND HOUSTON: WATSON IS WADING INTO OVERSEAS MARKETS—NAMELY LATIN AMERICA AND EUROPE

For Watson, the Chevron deal caps a long drive to transform NGC from its start as a seller of a single fuel into a broad-based marketer of energy and related services whose customers include Kraft Foods, Aluminum Company of America, and Lyondell Petrochemical. Along the way, the Houston company has earned a reputation as one of the savviest players to emerge from a decade of deregulation in the natural-gas industry. And as the far larger wholesale electricity market lumbers toward deregulation, Watson is angling to become a key buyer and seller of power. "Our customers are even more excited about electricity deregulation than gas," says Watson. "They have seen the power of competiti

Even before the Chevron mer NGC stood out as one of a handfu companies that had prospered amid $20 billion gas industry's fierce con dation. It was begun as a partner among several pipeline companies in 1984, when deregulation allowed ducers, pipelines, and anyone else gas to sell directly to customers. was supposed to serve as a broker their excess gas. But it floundered v the pipeline partners figured they w do better on their own. Morgan Sta which had set up the partners bought them out and brought in son, then a rising star at Conoco I

FLEXIBLE PRICES. An intense man known for his self-deprecating hu and workaholic ways, Watson also velops planned residential commun outside Houston and owns the Hou Aeros professional hockey team. He transformed NGC into a critical mid man, buying energy products whole and reselling them to customers. Ye gas-marketing margins plummeted 25¢ per 1,000 cubic feet in the late 1 to less than 3¢ last year, Watson rea the key to survival was to rapidly customer services. He offered indus buyers a basket of different fuels one centralized bill and helped co nies in high-priced regions buy and t port gas in from priced markets. also began helping tomers devise fina hedges, using fut and options, to en flexible prices. Watson drove up volumes through ventures with N Corp. of Canada and British Gas PL

Gas marketing is a business in w the margins are as low as the g our—but Watson has made it pay While plenty of smaller marketers ed, NGC has hit a gusher. Operating flow—the key measure of industry itability—soared 147% last year $126.6 million, on revenues of $3.7 lion, a 13% hike. Brokerage Jefferie Co. expects the Chevron deal to r than double revenues, to $8.5 billion 1997. And analyst John Olson of Me Lynch estimates operating cash flow hit $180 million. Such prospects sent the stock up 30% this year, to a week high of 12.

The success has won Watson a lo admirers. "Twelve years ago, he saying things that seemed awfully w says Curt N. Launer, an analyst at I aldson, Lufkin & Jenrette Securi

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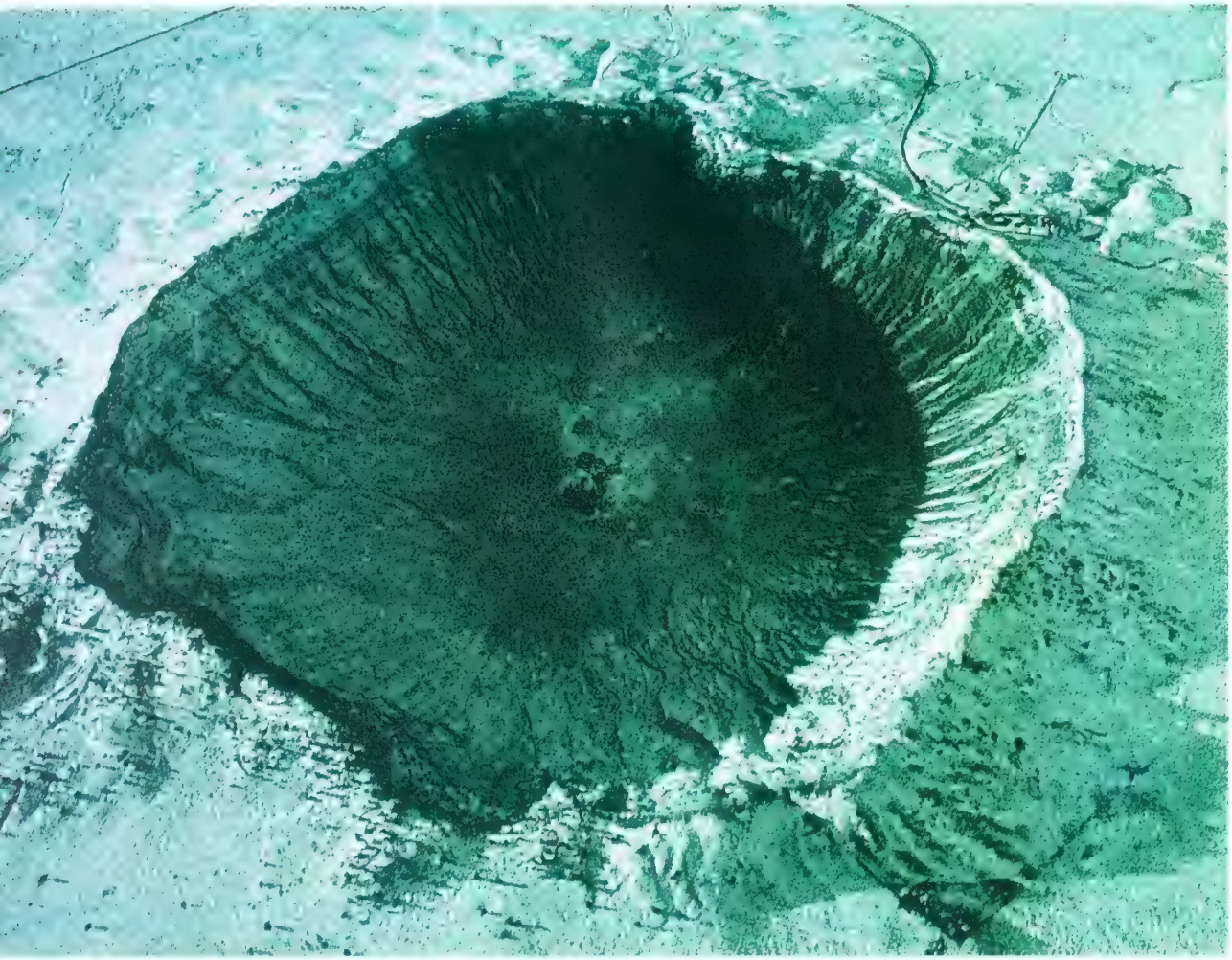

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Corp. He credits Watson with seeing the opportunities deregulation would create long before others. "Then he made [them] happen," Launer says.

Customers, too, have flocked to embrace the company's innovations. David Stotz, manager of gas supply at Lyondell Petrochemical Co., says NGC has become known for its novel price schemes and is indispensable in securing fuel in a pinch. "The most important thing about NGC is it's always there to make a market," he says.

Now Watson is turning his attention elsewhere. He's pushing the company abroad, scouting out Latin America. And in a marketing joint venture with British Gas, NGC is driving into Europe. European energy deregulation is just starting, but it could leapfrog the U. S. "Europe is going to open up, and we'll be right in the middle," Watson says.

But the real plum promises to be the U. S. electricity market, where deregulation is in its infancy. There's already a $45 billion-a-year wholesale market for electricity traded among utilities and municipal grids. An additional $50 billion niche could develop as soon as states deregulate power sales to big companies. Chevron CEO Kenneth T. Derr says one reason for the deal with NGC is to grab a position "in the developing U. S. electric power market."

Having built trading systems and customer relationships, Watson reckons NGC can outmaneuver the slow-moving utilities if the market becomes more competitive. Gas accounted for 65% of NGC's 1995 sales, but that could change. "If we're half as successful in electricity as we are in gas, in five years we'll be making more money in our electricity division than our gas division," he says.

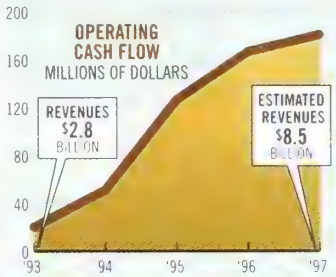
Still, Watson does not have the field to himself. Enron Corp. and Coastal Corp., two oil and gas marketing rivals, are racing into electricity wholesaling. E has taken the lead with electricity of 3.1 million megawatt hours in 1 fourth quarter, but NGC is catching u began marketing electricity last and by the fourth quarter sold 1.5 lion megawatt hours—about the size midsize power plant. It will soon pr electricity to all of Chevron's plant

MORE SPARKS. Just as he teame with NOVA and Chevron for gas plies, Watson is forging ties with p producers. NGC is investing 10% fund assembled by Indeck Energy vices Inc., a Buffalo Grove (Ill.) bu of power plants. Indeck's fund w nance new power-plant construction idea: NGC will sell gas to plants by the venture—and get the rig market the electricity they genera

Such unconventional thinking is Watson. Two years ago, he brought fessional hockey to steamy Houst owner of the Aeros. Now he's usin city's growing interest in hockey t leisure skating to fans. His newes sion: encircling Houston's Western urbs with four rinks. Think of the tricity they'll require.

By Gary McWilliams in Ho

NGC'S FORTUNES KEEP GUSHING



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MANAGED CARE

HEALTH CARE: THE QUEST FOR QUALITY

The industry is readjusting after years of cost-cutting

St. Joseph's Hospital, a 350-bed Catholic institution in suburban Atlanta, was the sort of place managed health care could easily have obliterated. Too many expensive-to-treat chronic care patients, too much dependence on technology and inpatient care, too many indigents.

Simply slashing employees wasn't an option: With 15 surgeons doing 1,900 open-heart surgeries and 4,000 catheterizations a year, evidence of declining quality would begin stacking up in the morgue fairly quickly. So the hospital reengineered. It reduced nursing staff by 15% but found ways to have those remaining spend more time with patients. Computers were used to analyze how fast each surgeon worked so the operating rooms could be booked accordingly—slow cutters got more time.

Costs did drop, but there was more: Quality improved. Post-surgery inpatient stays were reduced, but patients wound up healthier and happier. For one thing, shorter stays cut average bills for heart bypass patients to $27,300, from $36,800. At the same time, quicker discharges helped reduce post-op pneumonia by two-thirds. Bottom line: Last year, St. Joseph's net income rose 67%, to $20 million.

TURNING POINT. So arrives the new revolution in health care. After half a decade spent shaving hospital stays, scrimping on specialist care, and standardizing on suture brands, the $1 trillion health-care industry is starting to figure out there's more to life than cutting costs. Hospitals, doctors, and insurers, attended by a growing coterie of consultants and information systems suppliers, are rediscovering quality.

What's driving this transformation? Once again, it's big employers such as Xerox, GTE, Marriott, and USAir, the same folks who led the charge for lower costs. That push paid off big: By 1995, corporations had pushed 71% of their workers into cheaper managed-care insurance plans. And after years of double-digit growth, U.S. businesses kept their health-benefits inflation to just 2.1%, following a 1.1% decline in 1994, according to consultants Foster Higgins & Co. (chart).

Many patients aren't satisfied with managed care, and employers are discovering that bette medicine can cut expenses over the long haul

But the jihad on health-care costs went too far—at least, that's the perception helping to fuel the incipient counter-movement. While studies indicate that managed care keeps people at least as healthy as traditional insurance plans, many patients aren't satisfied. And employers worry that penny-pinching health plans may affect productivity. "When companies look at days lost due to sickness, they begin asking themselves if their HMOs are really maintaining the health of their employees," Dr. Paul C. Royce, medical director of benefits consultant Segal Co.

They also understand that, done right, quality medicine should actually reduce their expenses over the long haul. That's the strategy managed-c companies such as Oxford Health Pl Inc. are stressing (page 108). Invest up front in preventive programs chronic ailments such as asthma and abetes can dramatically reduce em gency-room visits and expensive c plications. Annual influenza vaccir which cost $10 apiece, reduce med costs and sick days to the tune of $4 per patient, according to a 1995 st by Minnesota researchers publishe *The New England Journal of Medic*

An enormous medical-consulting dustry has sprung up to provide ployers, insurers, and care providers v new strategic road maps. Benefits perts such as Segal and managem

Quality Crusaders

A group of large employers is pushing insurers to improve health-care quality. Here are some cutting-edge efforts:

GTE

Five full-time experts visit each of the company's 125 managed-care contractors, examining medical records and quizzing doctors. The result: an elaborate report card for employees comparing quality. Annual cost: $2 million.

MARRIOTT

The hotelier helped found a purc coalition of 10 major employers t rate HMOs bidding on contracts. criteria count for 70% of the scor payoff: Marriott's health-care cos employee declined 7% last year.

ANGIOPLASTY IN ATLANTA
At St. Joseph's Hospital, computers analyze surgeons' work to help book operating rooms

ants such as Deloitte & Touche, advised St. Joseph's, are measuring mes" of various treatments, moni- continuous quality improvement pitals, and writing "practice guide- to standardize doctors' practices. rmation systems are hot, too. of health-care technology compa- ich as HBO, HCIA, and Imnet Sys- have soared as insurers and ers alike demand more sophisti- tools to measure utilization and t programs designed to limit de- for expensive care. Says Richard tt, CEO of the 311-hospital Colum- A Healthcare Corp.: "The future s to whoever best measures qual- care and then markets it the best. er does will absolutely control the t, and everyone who doesn't will ear." Nearly half the American tal Assn.'s 5,000 members now and market their quality and cost he AHA reported on Mar. 25. tainly, this revolution is still in its ive stage. Quality health care remains notoriously difficult to measure and analyze; outcomes analysis, the study of medical treatments' effectiveness, remains relatively primitive. Only half of America's largest employers make any effort to evaluate the quality of HMOs—generally through employee surveys. And only a fourth of large companies ask their HMOs for data on treatment of such common and costly ailments as hypertension, diabetes, and asthma, according to consultants Watson Wyatt.

TWO TIERS? Most companies, indeed, are still concerned more with simply maintaining their mastery, only recently achieved, over medical inflation. It could be that, ultimately, health care becomes a two-tier market—quality-oriented care for those willing to pay for it and bargain-basement medicine for the rest. Low-income workers may find themselves squeezed by insurance plans that cover fewer and fewer charges and treated by doctors forced to accept lower compensation without much incentive to sustain quality.

The managed-care industry swears that won't happen. Too many horror stories of care denied, postponed, or not compensated have made it intensely sensitive to the question of perceived quality. That's one reason a group of insurers, spurred by big employers, founded the National Committee for Quality Assurance in 1990. The NCQA, a Washington-based nonprofit, evaluates health plans on 50 measures. Are an HMO's physicians board-certified? Do women routinely get Pap smears? Do administrative functions such as medical records operate effectively?

It's a rudimentary assessment, focused more on preventive procedures and organizational capability than on actual medical results. Still, more and more big corporations are requiring NCQA accreditation from HMOs that seek contracts. A third of the plans examined so far have received full accreditation, and 14%—among them, Humana Medical Plan of Jacksonville, Fla., and CaliforniaCare—have flunked outright; the remainder were given conditional approval for a year. This June, the NCQA will begin rating each plan for quality improvement, members' rights, and technology.

Another nonprofit group, the Portland (Ore.)-based Foundation for Accountability (FACT), will publish in May new criteria for measuring quality for specific treatments. Take one expensive and increasingly prevalent disease—breast cancer. Says FACT President David Lansky: "We want to know, what's the quality of life patients experience during treatment? How long did it take to diagnose? What's

PEPSICO

ltant William H. Mercer Inc., HMOs produce outcomes rticipate in continuous quali- nent. Participating doctors preventive services such as kups for diabetic employees.

USAIR

The airline compares treatment of its 42,000 employees with nationwide data and scrutinizes any variances. Workers are surveyed and urged to report problems. Such efforts helped persuade unions to accept managed care.

It was among the first to require HMOs to supply comparative medical data. Employees use such information to pick a plan offering the best care for the right price; workers get bonuses for choosing one that meets quality criteria.

the five-year, disease-free survival rate? The rate of radical mastectomy vs. breast-saving surgery?" FACT will attempt to compare results across a range of HMOs.

That FACT's relatively modest initiative has attracted considerable interest points to both the dearth of sophisticated health-care data and growing employer demands for something better. "If major corporations had asked doctors 10 years ago what kind of outcomes they were having, they would have been accused of interfering in the practice of medicine," says William H. Mercer Inc. consultant Lewis Devendorf. Now, PepsiCo Inc., advised by Mercer, requires HMOs to provide details on treatment. It insists that participating doctors write diabetic employees once a year to invite them to have vision checkups. And it wants children with asthma to be trained on the use of inhalers—most kids hold them too close to their mouths and thus can reduce the medication's effectiveness, landing them more often in emergency rooms.

"THIS IS HARDBALL." Xerox Corp., one of the nation's most innovative health-care purchasers, led the drive five years ago to standardize medical reporting so it could compare the performance of the 216 HMOs it contracts with nationwide. Eventually, Xerox hopes to provide diabetic workers with detailed descriptions of how all the HMOs deal with the disease, or provide HMOs a profile of the company's asthma victims and ask for treatment proposals. "We want our employees to be empowered to decide, and we're willing to buy a very efficient and high-quality health care for them," says Helen Darling, manager of health-care strategy and programs. Xerox literally pays workers to choose the best insurance, awarding bonuses to those who select NCQA-accredited plans.

GTE Corp., meanwhile, is among the most aggressive employers in assessing insurers' quality. Five full-time experts visit each of the company's 125 managed-care contractors in 29 states, examining medical records and quizzing participating doctors. The monitoring effort costs $2 million a year but yields two important benefits. GTE's 100,000 U. S. employees and 50,000 retirees get an elaborate report card comparing all HMOs available. And GTE knows exactly who isn't performing. In Texas and Florida, where it wasn't satisfied with HMO quality, GTE set up its own health clinics to deliver primary care. "This is hardball," says J. Randal MacDonald, senior vice-president for human resources and administration. "And if I get my employees happy with their benefits, then I have employees who are more productive."

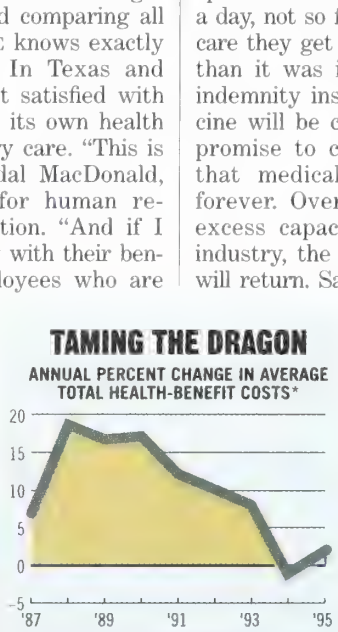
SAYING 'AAAH' IN TAMPA

GTE, dissatisfied with HMO quality in Florida and Texas, set up its own clinics to deliver primary care

Managed-care insurers are raising their own game in response. "HMOs are hungry for business and anxious to improve themselves and do well," says Steve Weidenmuller, USAir Group Inc.'s senior director of compensation and benefits. Utilization review systems, once used primarily to spot overuse

TAMING THE DRAGON

ANNUAL PERCENT CHANGE IN AVERAGE TOTAL HEALTH-BENEFIT COSTS*



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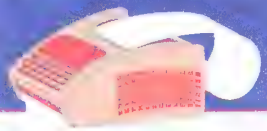

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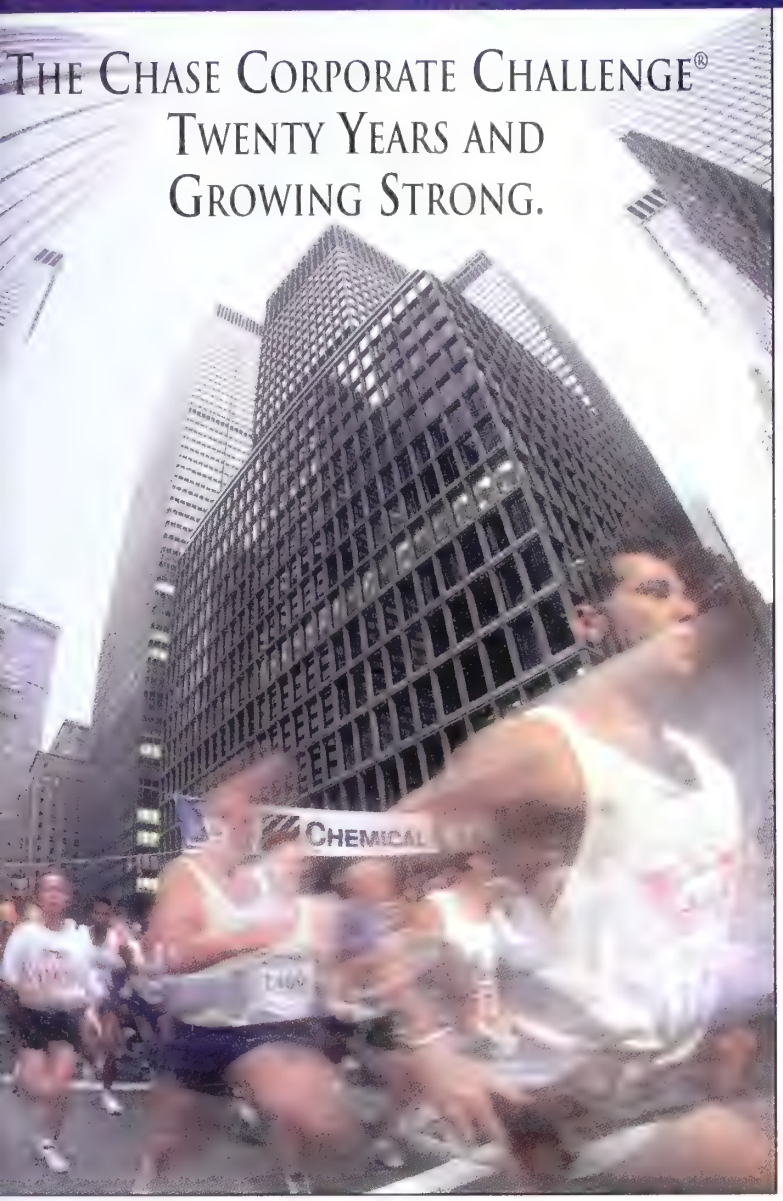

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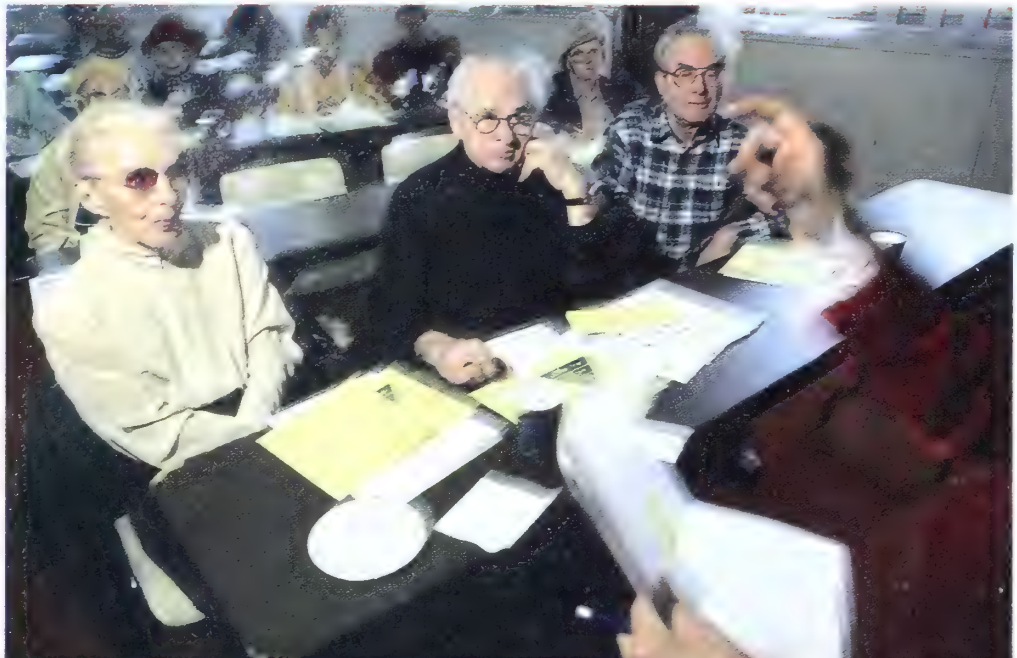

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OXFORD'S EDUCATION

The company finds there's more to health care than marketing

The guy's outward tranquility is almost unnerving. While his company explodes around him, Stephen F. Wiggins talks in transcendental tones of "social ecology" and his childhood in small-town Minnesota. He reflects on *Atlas Shrugged*, Ayn Rand's paean to laissez-faire individualism: "You really should read it if you want to understand what we're doing here."

Or you could read the financials. Wiggins' 12-year-old managed-care company, Norwalk (Conn.)-based Oxford Health Plans Inc., has doubled in size each year since 1991, grabbing more than 1 million members and clobbering much bigger rivals in the New York market to do so. Profits jumped 71% in 1995, to $15.6 million, on sales of $1.77 billion, up 132%. On the strength of such hypergrowth and of Wiggins' charisma on Wall Street, Oxford's stock trades at a staggering 59 times 1995 earnings—nearly triple the industry average.

Oxford won legitimacy almost overnight by shrewdly marketing an exquisitely well-positioned product. Now, though, it must pursue the more difficult path of actually managing people's health care. Its new strategy is intensely systems-driven and education-oriented. If it succeeds, Oxford will have the capacity to determine who is likely to become sick, to show those people how to stay out of doctors' offices by taking care of themselves, and to give doctors both the medical and financial responsibility to decide what care is appropriate.

DATA-DRIVEN. Laissez-faire stuff, indeed—with a touch of Big Brother. Wiggins wants Oxford to become an organization "that people will come to depend on and trust as the best arbiter of health-care service." That's right—better than their doctors. Its marketing expertise gives Oxford a unique fix on members' demands and their medical status. Its doctors, with a unique fix on r cine, are given autonor decide on their pati care—but increasingly, decisions will be shape data. What is necess What really works? O will know. The result, in ory, will be higher-qu medicine at lower cost. in the end, a compellin sign—and it could repr the future of medicine.

Wiggins started would become Oxfor 1984. Only 27 years old of Harvard business s and fresh from an unsa ing stint in venture capital, he s niche in the New York-area market high-quality health-maintenance or zation in the image of plans in Calif and the Midwest. New York, fiercel sistant to managed care, wasn't r But it could handle a compromise ford's Freedom Plan, a so-called poi service product that, for an addit charge, allows patients to visit do outside its network.

Doctors liked the Freedom Plan cause Oxford paid them relatively erously. There was more than though: Where other HMOs fostere versarial relationships, Oxford str its doctors. Wiggins enlisted a co of respected physicians as investors advisers, and employees hustled to the expanding network humming. worked like dogs to establish rela ships," says a former manager. Em ers jumped at a product that pron quality care and flexibility. The ki While pricier than more draconian H Oxford cost 10% than competing in nity plans.

"By the time ev one figured out t pricing wasn't wor there was Oxford g bing doctors and n bers," says Josep Lynaugh, chief ex tive of NYLCare He Plans, New York Insurance Co.'s he subsidiary. But as ford grew to a net

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DATA: CONNING & CO

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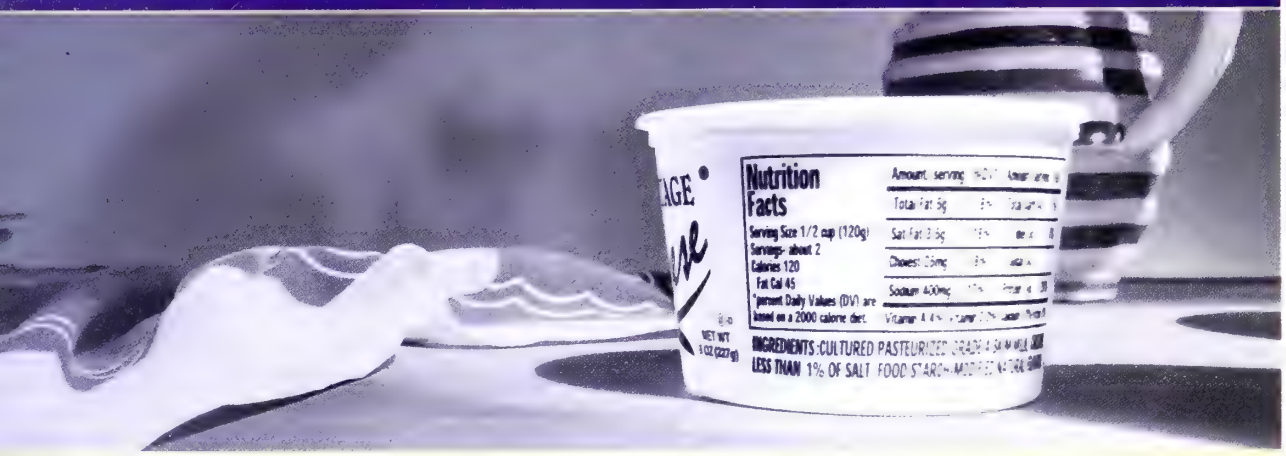
than a two billion dollar

Mutual Fund.



It's a little known fact. How a mutual fund is classified doesn't always indicate how it will be invested. Whether you're putting together your own portfolio or a 401(k) plan, this makes every decision even more difficult. At Putnam, we continuously monitor each fund to ensure that year after year it still fits its classification. As a result, our funds stay true to form. So while we always recommend you consult a financial advisor, we also suggest you consult the firm whose fifty-eight years of experience have taught the difference between writing a label and standing behind it.

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of more than 25,000 physicians, it looked less and less like a managed-care company. The administrative controls to rein in medical costs and monitor quality were slipping. By last year, customers routinely were complaining of delays in service and claims processing. Offered less handholding and lower fees, moreover, fewer of Oxford's doctors viewed the company as distinctive.

Meanwhile, Oxford's costs were escalating. Its medical-loss ratio, the industry gauge of medical costs as a portion of premiums, jumped to 77.4% in 1995, from 74.1% the year before. In part, this represented slightly lower premiums and a dramatic increase in the company's Medicare and Medicaid members, who tend to require more medical care. But it also points to the need to manage costs more closely.

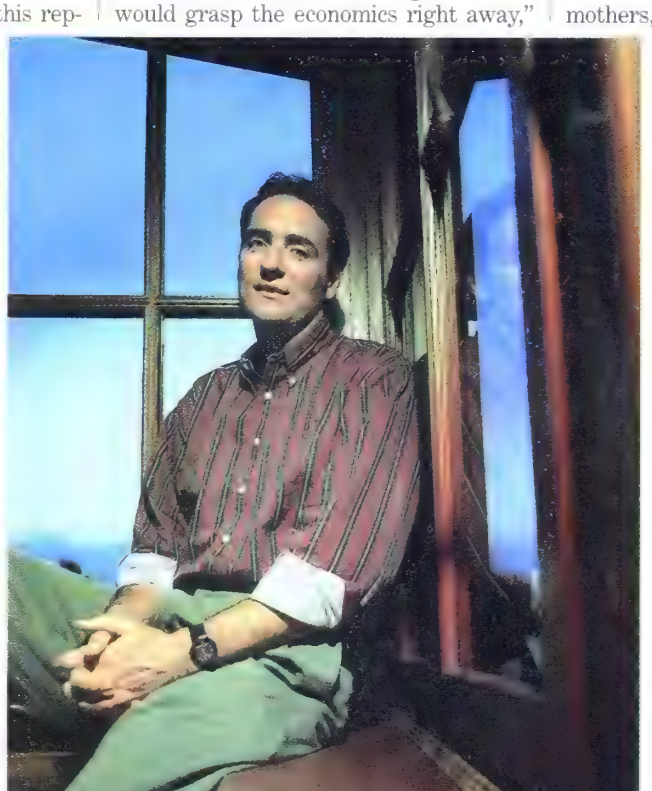
GROWTH GURU

Wiggins' 12-year-old company has doubled in size every year since 1991

Managed care historically has relied on two mechanisms to control claims. First is the primary care provider, a "gatekeeper" doctor positioned to coordinate and regulate patients' care. Then there's capitation, which pays doctors a flat monthly fee per patient regardless of the services actually rendered. Such mechanisms often don't work very well, though. The gatekeeper role is an administrative nightmare, and doctors typically find ways to circumvent insurers' restrictions. And capitation, rather than encouraging fiscal conservatism, actually can motivate primary care doctors to send patients unnecessarily to specialists and hospitals.

BUDGET PLAN. Oxford's solution is to organize self-selecting groups of 40 to 100 physicians into "partnerships." Doctors are paid a percentage of patients' premiums, from a so-called global budget that fixes amounts for physician care, hospitalization, and prescription drugs. If one doctor sends a patient for an electrocardiogram, for example, the charge comes out of her group's budget. Oxford prepares quarterly reports, based on claims data, that detail the activity of each doctor in a group. Was a gall bladder patient sent to an expensive hospital? Was his stay unusually long?

The system is designed to play on individual ego, peer pressure, and financial self-interest. If doctors exceed their budget, after all, they lose money; yet withholding care will bring higher costs over time. Oxford admits it's a tenuous balance: "We thought doctors would grasp the economics right away," says Vice-President Thomas A. Travers. "Not all did." Ultimately, though, Oxford figures the partnerships will lower medical costs by 15%.



It expects to cut more through a series of initiatives known as demand management. One of these involves identifying patients with chronic conditions, then creating courses of care to prevent the need for expensive treatment later. Oxford spots asthma sufferers, for example, from claims data and patient surveys. It mails reams of self-care educational materials and a $10 peak-flow meter patients can use to assess their condition, then sends field workers to homes to instruct members on their use.

While broad academic studies of such efforts aren't yet conclusive, Oxford sults are tantalizing. In two years, pitalization of Medicaid asthma pat has dropped by about a third, prod a savings of some $300,000 a year t ford. Education programs for expe mothers, who get incentives for sch ing preventive checkups, reduced underweight babie about a third. "That's sm says Michael Schechter, a stetrician in Greenwich, "That shows me they care than the next company. they're going to pick up sa down the road."

TRIAGE. The other compo to Oxford's demand man ment is a block of cubicl the company's Norwalk quarters. There, nurses Oxford On-Call, fielding tients' after-hours calls bou from offices of particip doctors. Assisted by com software that essentially cates a doctor's expertise, es gauge the urgency of call, reach a diagnosis, an termine what action is a priate: self-care, a call to doctor's beeper, or a trip emergency room.

Such telephone triage relatively modest start. By spring, Wiggins wants a l corps of nurses to start g patients direct referrals to cialists—saving members a to their gatekeeper, freein primary-care doctors for other pati and getting rid of a lot of paper Ultimately, the nurses could be planted by doctors who provide time diagnoses and treatment op further diminishing demand for expensive office visits.

Will all of this work? Oxford, other insurers investing in si strategies, believes the market wil into the promise of higher qualit will require, however, that doctors patients change their behavior more than managed care has dem to date. The better the care gets, easier that will be.

By Keith H. Hamm in Norwalk, C

Soon, Oxford will have a corps of nurses who c make referrals to specialists–saving patients time, freeing up doctors, and cutting paperwo

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EQUITY FUNDS COME IN LIKE A LION

Gold and emerging markets led the advance, while bond funds tanked

Barely three months into 1996, investors have already poured an estimated $60 billion into equity mutual funds—almost as much as they invested in all of 1992. So far, they're getting their money's worth. For the first quarter, through Mar. 25, the average equity fund delivered a total return of 5.45%. The funds still trailed the 5.93% return of the Standard & Poor's 500-stock index, but the funds are now closer to the benchmark than they were all last year, when the index delivered 37.5%.

"After a year like 1995, I wasn't expecting much more than a 10% gain from the equity market this year," says Sheldon Jacobs, editor of *No-Load Fund Investor*. "We still might get that, but we're off to a start that suggests more." What makes the stock market's advance all the more impressive, says John Rekenthaler, publisher of *Morningstar Mutual Funds*, is that it took place during a "very bad quarter for bonds." After climbing for over a year, the bond market plunged in February, with the yield on the benchmark 30-year Treasury bond jumping from 6.1% to as high as 6.7%. That meant widespread losses for bond funds. Total returns for taxable funds were –0.60%; for tax-free funds, –1.58%.

Fund investors are choosing stocks over bonds because that's where the most money has been made. And for now, the huge inflows suggest there's fuel to drive prices higher. Robert Adler, whose AMG Data Services tracks flowing into mutual funds, says tha rate of investment now is $5 bill week, down from $6.75 billion in February. Still, that's up from $1.5 b this time last year.

AGLITTER. With a notable exceptio categories of equity funds posted this quarter. Precious metals, or funds staged one of their periodic s turns, up 23.41%. The last time the such a surge was 1993, and they've mainly in the dustbin since. The qua top performer is the $1.3 m Nashville-based Monitrend Gold I up 64.62%. Its secret? "Junior Can mining stocks," said portfolio man Phillip Verrill.

What propelled gold funds in 199

The Best Returns

	TOTAL RETURN*		TOTAL RETURN*
MONITREND GOLD	64.62%	VAN WAGONER MICRO-CAP	19.60%
INVESCO STRATEGIC GOLD	44.34	JOHN HANCOCK GLOBAL RESOURCES B	19.29
DREYFUS AGGRESSIVE GROWTH	38.89	PIONEER GOLD A	19.19
IDS PRECIOUS METALS A	37.00	BENHAM GLOBAL GOLD	19.00
SCUDDER GOLD	35.47	MFS GOLD & NATURAL RESOURCES B	18.87
MIDAS	33.18	AMERICAN HERITAGE	18.64
MORGAN STANLEY INSTL GOLD	32.75	RYDEX PRECIOUS METALS	18.32
BLANCHARD PRECIOUS METALS	31.23	LEXINGTON STRATEGIC SILVER	18.18
VAN WAGONER EMERGING GROWTH	27.60	DEAN WITTER PRECIOUS METALS & MIN.	18.09
SMITH BARNEY NATURAL RESOURCES A	25.92	VAN WAGONER MID-CAP	18.00
LINDNER BULWARK	25.87	VAN ECK INTL. INVESTORS GOLD A	17.75
ROCKWOOD GROWTH	25.75	MORGAN STANLEY INSTL LATIN AMERICAN	17.64
VAN ECK GOLD OPPORTUNITY A	25.54	ROBERTSON STEPHENS CONTRARIAN	17.49
FIDELITY SELECT AMERICAN GOLD	25.11	ALLIANCE QUASAR A	17.18
GABELLI GOLD	23.75	G.T.GLOBAL NATURAL RESOURCES A	16.65
UNITED SERVICES WORLD GOLD	23.64	WRIGHT EQUIFUND-MEXICO	16.59
BULL & BEAR GOLD INVESTORS	23.55	STRONG SMALL CAP	16.30
FIDELITY SEL. PRECIOUS MTLS. & MIN.	23.14	PBHG CORE GROWTH	16.20
LEXINGTON GOLDFUND	21.31	FRANKLIN GOLD I	16.16
CAPPIELLO-RUSHMORE GOLD	20.74	VANGUARD SPEC. GOLD & PREC. MTLS.	15.78
PIMCO ADVISORS PRECIOUS METALS A	20.74	FIDELITY SELECT AIR TRANSPORTATION	15.77
MONTGOMERY SMALL CAP II	20.25	KEYSTONE PRECIOUS METALS	15.67
FONTAINE CAPITAL APPRECIATION	20.15	PREMIER STRATEGIC GROWTH A	15.65
VAN ECK GOLD/RESOURCES A	20.07	VAN ECK ASIA INFRASTRUCTURE A	15.32
USAA GOLD	19.93	WRIGHT EQUIFUND-NETHERLANDS	15.21

Precious metals sparkled thanks to new gold strikes, an even beate up Latin American funds show some life

val in bullion prices and po-
change in South Africa; now,
scovery. "We've had more
gold strikes in the last year
he last 10 or 15 years," says
B. Leonard, who runs In-
Strategic Gold, up 44.34%.
're looking in places never
ed before, as nations like In-
a and Vietnam open their
' One big hit: Bre-X Minerals
a Canadian company with a
find in Indonesia. The stock
arly tripled this year, to $145
dian), and Leonard's fund
210,000 shares.

OLDRUMS. Funds that look
ike it rich by investing in
World stocks are also finding
s. Diversified emerging-mar-
unds scored a 9.2% return
e quarter, and even the beat-
Latin American funds are showing
"Emerging-markets funds are still
at comeback story," says Michael
r of Stolper & Co., a San Diego
hat helps investors select money
gers and mutual funds. The few
funds that buy emerging-markets
lso showed strong returns.
ernational equity funds posted
gains, too. European regionals
up 6.28%. Pacific funds earned
even as Japanese funds slumped,
ed down by a lackluster market
condary stocks and a stronger dollar, which makes yen-based investments less valuable.

The quarter's only loser: technology funds, down 2.45%. That's the second down quarter in a row as the once high-flying sector continues to correct. Some of the worst performers are pure tech funds—or more diversified ones, such as Robertson Stephens Value + Growth, that bet heavily on the sector. Bringing up the rear were the more interest-rate-sensitive funds, such as asset-allocation and balanced funds, which keep some portion of their portfolios in bonds, and utilities funds, which invest in the most rate-sensitive area of the market.

An ill-fated foray into bonds put a damper on the behemoth Fidelity Magellan Fund, which posted a skimpy 2.31% for the quarter. But a few megafunds did stand out. The $13.5 billion Janus Fund, the 11th-largest fund, earned 8.12%. "When tech sold off, investors started buying the large-cap growth stocks we already owned," says James P. Craig, Janus' manager. And one big fund, the Vanguard Index Trust 500 Portfolio, delivered an impressive 6.06% return just by investing in the same stocks and in the same proportions that are in the S&P 500 (BW—Mar. 31).

Every once in a while, the winners sputter and the losers shine. Twentieth Century Giftrust Investors, for instance, the best-performing fund for the 10 years ending Dec. 31, is one of the worst for this quarter, down 5.71%. American Heritage Fund, which was down 35.3% in 1994 and another 30.6% in 1995, rebounded with an 18.64% return. "I hope I will disprove my critics who have written me off," says American Heritage's Heiko H. Thieme, who runs an eclectic portfolio that features private placements in small companies and frenetic trading

How the Big Funds Fared

FUND	BILLIONS	TOTAL RETURN*
FIDELITY MAGELLAN	$55.5	2.31%
INVESTMENT COMPANY OF AMERICA	26.9	5.65
VANGUARD INDEX 500	19.8	6.06
WASHINGTON MUTUAL INVESTORS	19.8	4.80
FIDELITY GROWTH & INCOME	16.9	5.55
FIDELITY PURITAN	16.4	4.65
FIDELITY CONTRAFUND	16.4	5.71
TWENTIETH CENTURY ULTRA INVESTORS	16.2	0.65
INCOME FUND OF AMERICA	14.3	3.41
VANGUARD/WINDSOR	14.0	5.44

*APPRECIATION PLUS REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS BEFORE TAXES, JAN. 1-MAR. 25, 1996

DATA: MORNINGSTAR INC.

ne orst eturns

	TOTAL RETURN*		TOTAL RETURN*
MERRILL LYNCH TECHNOLOGY A	–9.42%	PAINEWEBBER UTILITY INCOME B	–2.69%
GOVETT SMALLER COMPANIES A	–7.64	FIDELITY SELECT TECHNOLOGY	–2.65
SELIGMAN COMMUN. & INFORM. A	–7.32	JAPAN	–2.54
WARBURG PINCUS JAPAN OTC COMM.	–7.12	WASATCH MID-CAP	–2.52
STEADMAN INVESTMENT	–6.80	ROBERTSON STEPHENS INFORMATION AGE	–2.47
FIDELITY SELECT COMPUTERS	–6.03	SMITH BARNEY PRINCIPAL RETURN 2000	–2.42
TWENTIETH CENTURY GIFTRUST INVEST.	–5.71	WRIGHT EQUIFUND-JAPAN	–2.39
SMITH BARNEY TELECOMM. INCOME	–5.27	FIDELITY JAPAN	–2.33
GAM INTERNATIONAL A	–5.15	FIDELITY SELECT TELECOMMUNICATIONS	–2.06
ROBERTSON STEPHENS VALUE + GROWTH	–4.72	DREYFUS EDISON ELECTRIC INDEX	–2.03
GAM GLOBAL A	–4.66	OVB EMERGING GROWTH A	–1.88
RYDEX URSA	–4.35	PHOENIX U.S. STOCK A	–1.85
EXCELSIOR COMMUN. & ENTERTAIN.	–4.19	BENHAM UTILITIES INCOME	–1.77
PAINEWEBBER SMALL CAP GROWTH A	–4.03	GALAXY II UTILITY INDEX RED.	–1.74
SELIGMAN HENDERSON GLOB. TECH. A	–4.00	G.T. GLOBAL JAPAN GROWTH A	–1.73
STRONG DISCOVERY	–3.80	T. ROWE PRICE JAPAN	–1.71
STEADMAN AMERICAN INDUSTRY	–3.75	BT INVESTMENT UTILITY	–1.67
HOTCHKIS & WILEY SMALL CAP	–3.61	COLONIAL UTILITIES B	–1.61
FIDELITY JAPAN SMALL COMPANIES	–3.40	ALLIANCE TECHNOLOGY A	–1.56
USAA INCOME	–3.33	FIDELITY SEL. SOFTWARE & COMPUTER	–1.55
MERRILL LYNCH UTILITY INCOME B	–3.30	EVERGREEN LIMITED MARKET Y	–1.43
SMITH BARNEY UTILITIES A	–3.22	MONETTA	–1.41
KEYSTONE AMER. HARTWELL EMERG. GR. A	–3.19	PHOENIX CAPITAL APPRECIATION B	–1.41
FIDELITY EXPORT	–3.14	CAPSTONE NIKKO JAPAN	–1.36
PARNASSUS	–2.96	VANGUARD SPEC. UTILITIES INCOME	–1.34

Tech funds continued to sink. Utility funds, sensitive to interest rates, sputtered as bonds fell

CIATION PLUS
JAN. 1-MAR. 25, 1996

of large-cap stocks. Since 1993, portfolio losses and shareholder redemptions have reduced the fund from $150 million to $22 million.

Another laggard is Govett Smaller Companies A, down 7.64%. During the 1993-95 period, the fund gained an average 50.1% a year. But that was under the leadership of Garret R. Van Wagoner, who left at yearend to start the Van Wagoner Funds, all three of which finished near the front of the pack for the quarter. Already, the fund family has $175 million in assets. Van Wagoner, who had as much as 70% in tech when he ran Govett, now has only about 30%, mainly software and data communications companies. He's got 40% in health care, and about 8 energy services.

Energy services in a growth You bet. Randall E. Haase, por manager at Alliance Quasar A 17.18%, has also taken a major sta this area. "You're seeing secular gr in a cyclical industry," says Haase, has invested in companies that ren shore drilling platforms, including C Marine, Diamond Offshore Drilling Reading & Bates. They're bene from demand for oil rigs that has bled daily rental rates over the year. Haase's fund is also investi growth trends in the cyclical retai airline industries.

NEW FACES. Also among the qua stars are new names. Dreyfus Ag sive Growth Fund, with $21.2 milli assets, is the best-performing div fied fund, up 38.89%. The six-mont fund is run by veteran portfolio ager Michael L. Schonberg, who is to Dreyfus. Another fund to wat $1.1 million Rockwood Growth 25.75%. It has been around for 10 but only been available in Idaho, w it's headquartered. But fund mar Ross Farmer says he plans to regis 35 states this year.

Leaders in a Weak Bond Market

TAXABLE FUNDS	TOTAL RETURN*	TAX-FREE FUNDS	TOTAL RETURN*
VALUE LINE CONVERTIBLE	8.37%	COLORADO BONDSHARES	1.38%
BEAR STEARNS EMERGING MKTS. DEBT A	7.90	CALVERT TAX-FREE RESERV. LTD.-TM. A	0.88
SCUDDER EMERGING MARKETS INCOME	7.55	GOLDMAN SACHS SH. DUR. T/F INSTL.	0.74
RYDEX JUNO	7.37	DREYFUS SHORT-INTERMED. MUNI BOND	0.53
CGM FIXED-INCOME	6.58	59 WALL STREET SHT./INTERM. F/I	0.50
NICHOLAS-APPLEGATE INC. & GROWTH C	6.49	VANGUARD MUNICIPAL SHORT-TERM	0.37
JANUS HIGH-YIELD	6.43	FEDERATED LIMITED TERM MUNICIPAL F	0.36
MORGAN STANLEY INSTL. EMRG. MKTS. A	6.17	KENT LIMITED TERM TAX-FREE INSTL.	0.33
TOUCHSTONE INCOME OPPORTUNITY A	6.11	DAVIS TAX-FREE HIGH INCOME B	0.33
NORTHERN INCOME EQUITY	6.05	EXCELSIOR SHORT-TERM TAX-EX SECS.	0.32
AVERAGE OF 1,254 FUNDS	–0.60	AVERAGE OF 1,030 FUNDS	–1.58

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS BEFORE TAXES. JAN. 1-MAR. 25, 1996 DATA: MORNINGSTAR INC.

PROVEN BY RELIABILITY.

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	TOTAL RETURN*		TOTAL RETURN*
PRECIOUS METALS	23.41%	EQUITY-INCOME	4.92%
NATURAL RESOURCES	9.38	SMALL COMPANY	4.83
DIVERS. EMERGING MRKTS.	9.21	FOREIGN	4.64
SPECIALTY—MISC.	7.72	MULTIASSET GLOBAL	3.81
HEALTH CARE	7.59	REAL ESTATE	2.78
EUROPE	6.28	BALANCED	2.67
GROWTH & INCOME	5.77	ASSET ALLOCATION	2.65
PACIFIC	5.57	COMMUNICATIONS	2.39
WORLD	5.42	UTILITIES	0.05
MAXIMUM GROWTH	5.35	TECHNOLOGY	–2.45
GROWTH	5.33	ALL EQUITY FUNDS	5.45
FINANCIAL	4.99	U.S. DIVERSIFIED EQUITY	5.32
		S&P 500 INDEX	5.93

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS BEFORE TAXES, JAN. 1-MAR. 25, 1996

DATA: MORNINGSTAR INC

Unlike a year ago, most diversified equity funds kept up with the stock market

ng the battered bond funds, there wer standouts. Certainly among e municipal bonds, rising long-terest rates depressed fund prices e best performers were mainly erm funds, which have the least t-rate risk.

among the taxable bond funds, arter produced notable results. Line Convertible, leading taxable nds, earned 8.37%. That shouldn't mplete surprise: Convertible debt pridge between stocks and bonds. What makes this fund stand out, says lead manager F. Barry Nelson, is that it sticks to the "old-fashioned" converts in which the investor participates in the appreciation of the underlying stocks. Many of the newer "exotic" converts, he says, pay a slightly higher yield but cap the amount of appreciation the convertible investors can realize.

Another star among the bond funds, Rydex Juno, is sort of an antibond fund. It sells bond futures short so the value goes up when bond prices go down. It's similar to the Rydex Ursa fund, which uses stock-index futures and options so that it moves in the direction opposite to that of the stock market. Both Juno and Ursa are funds for market-timers. Among the equity funds, Rydex Ursa is one of the losers—just where it should be in a bull market.

Most investors are not betting on Ursa, the bear, but on Taurus, the bull. And so far, that bet looks pretty good.

By Jeffrey M. Laderman in New York

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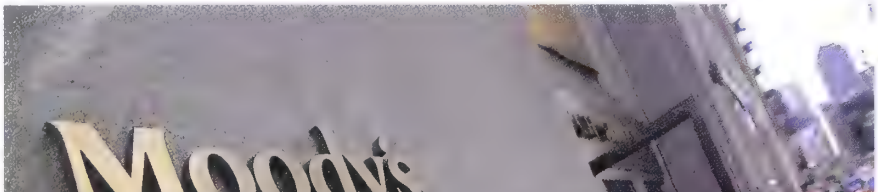
NOW IT'S MOODY'S TURN FOR A REVIEW

The Justice Dept. is probing possible antitrust violations



Moody's Investors Service I
under the microscope. The J
Dept. is in the early stages
investigation focusing on possible
trust violations involving the pov
credit-rating agency, a division of I
Bradstreet Corp. The probe cent
ratings for municipal bonds,
backed securities, and mortgage-b
securities and, more specifically,
stances in which Moody's made
licited ratings"—when it rated bo
sues even when an issuer did not
rating from the firm. Sources cl
the investigation say the scope m
broadened to include unsolicited r
that Moody has made on corporate

The Justice Dept. will only say
is "looking at the possibility of an
petitive practices in the bond
industry." But in letters and "ci
vestigative demands"—request
information that are similar to
poenas—that were sent to rating
cies Standard & Poor's (which is
by The McGraw-Hill Companies
BUSINESS WEEK's parent company),
Investors Service, and Duff & Phe
early March, Moody's was identif
the subject of the investigation. "T
no question that they're interes

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subjects at Moody's," says Fasel, a managing director at s. "I just don't know if we're the bject." Sources close to the in- tion say it focuses on Moody's whether the agency improperly es bond issuers to use its credit- services. The probe comes at an rd time: Moody's President John nn Jr. recently resigned, citing al reasons. He has vehemently any connection between his res- n and the inquiry.

RANGER. Moody's is not alone in unsolicited ratings of debt is- The ratings business began s ago, when fledgling rating s looked at information that Cor- America provided to the Securi- Exchange Commission and used ake unsolicited ratings. Most of troversy surrounding unsolicited today centers on their use in oming market for asset-backed rtgage-backed securities. Of the ree rating agencies, Moody's is n issuing unsolicited ratings in s for structured securities. Stan- Poor's, for example, will not structured finance deal without requested to do so, says Leo C. , president of Standard & Poor's Services. His concern centers complexity and adequacy of information provided about such deals.

Moody's says it would not make unsolicited ratings on such deals if it wasn't confident that it had sufficient data. Says Moody's Fasel: "We only issue ratings that we can defend, stand behind, and are confident of." Fasel says Moody's does not keep records of how many unsolicited ratings it makes. "It is a very, very small number of the total," he says. "We don't define the issue of unsolicited versus solicited as relevant." Moody's says it has never sent an issuer a bill for an unsolicited rating. Sources say that Moody's may send bills to existing clients who have elected not to ask Moody's for a rating on a new debt issue, however.

One question: Did Moody's improperly pressure issuers to use its service?

Moody's is no stranger to controversy. The credit-rating business has become increasingly competitive, and Moody's is not shy about fighting to maintain its franchise. Its aggressive style has alienated some bankers and bond issuers.

One issuer that is fuming over its experience with Moody's is the Jefferson County (Colo.) School District. It has filed suit against Moody's for "tortious interference with contract, interference with prospective business relationships, and disparagement." In the past, the school district had used Standard & Poor's and Moody's to rate its debt, but in a 1993 offering it decided to use Fitch instead of Moody's. "Moody's is traditionally more conservative about their ratings," says Lynn W. Clannin, budget and finance director for the district. On the day of the offering, Moody's put them on credit watch, says Clannin. The district suspended the sale and bought insurance, but Clannin says it cost the district $770,000. Moody's says it does not comment on pending litigation, but has filed a motion to dismiss the lawsuit.

The idea of beefing up regulation of rating agencies has been floated in Washington. Congress has also requested that the SEC consider increasing its oversight. So far, no legislation has materialized, and the SEC is still mulling rule changes. The Justice probe may shed light on whether such steps are needed.

By Suzanne Woolley in New York and Michael Schroeder and Catherine Yang in Washington

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MARKETS

FUTURES, FUTURES, EVERYWHERE

From Thailand to Turkey, exchanges are springing up

As China was lobbing missiles into the Taiwan Strait in March, Beijing Commodity Exchange Chairman Qiao Gang was attending to business on another shore. Sipping Pepsi by the pool at a swank Florida resort, Qiao networked at his first Futures Industry Assn. trade show. He's convinced that futures can help his country grow. "I believe in market forces," he says.

From Thailand to Turkey, emerging-market nations are launching futures exchanges. In the next year or so, an estimated 18 developing countries will be trading futures, up from seven today (table). Besides providing prices and risk-management for local users, the new markets aim to attract hard currency from foreign investors. With many emerging economies expanding at double-digit rates, multinationals need better ways to manage financial and commodity risks. And money managers want more products, too: Indexed emerging-market equity funds have attracted $5 billion, up from $200 million in mid-1993, according to the International Finance Corp. "The establishment of futures markets is a badge of credibility," notes Whitney MacMillan, retired chairman of agribusiness giant Cargill, based in Minnetonka, Minn.

Yet even as these new bourses sprout up, some question how successful they will be. Western investors salute them with one hand while gripping their wallets with the other. Third World markets suffer from backward laws and regulations. Firms default, governments change rules arbitrarily, and fragile financial systems sometimes melt down. Traders speak of "roach-motel" markets, where investing is easy but getting out is tough. At the biggest emerging-market exchange, Brazil's Bolsa de Mercado-

rías & Futuros (BM&F), no more 15% of the business comes from i trialized countries. In China and countries, foreign participation is

Still, the potential is there. And U.S. exchanges are trying to pre the startups. Encouraged by its cessful launch of Mexican peso fu in April, 1995, the Chicago Merc Exchange plans to list debt, cur and equity-index contracts on as as a dozen emerging markets ove next few years, says Chairman Jo Sandner. The Chicago Board Op Exchange has launched indexes on in American and Israeli stocks. T nos de México is among its most equity options.

TOP PRIORITY. To get a piece of action, exchanges in emerging ma are doing business differently; a bourses slated to open in 1996 an will be electronic. Brazil, which op for business in 1986, uses both outcry and electronic systems. So dealing is easier to set up and mo than the open-outcry system con in big U.S. markets, which req well-capitalized floor traders. An safer: At the two-year-old Beijing modity Exchange, each trade is ch for adequate margin before the puter system accepts it, says Qiao

Providing a tamperproof tradin eration is the top priority for the exchanges. "You may be robbed wa down the street, but in this place won't be robbed," says André A. pon, a New York-based consulta São Paulo's BM&F, the world's third est exchange. To avoid trouble BM&F performs all back-office t clearing and processing—a task by member firms in developed ma "There is typically much more vola and much more risk, so to be a very tough pl Cappon says.

That volatility pro great trading opportuniti experienced players wh cash in on out-of-whack p "Competition in eme markets tends to be les phisticated and less well talized," says Eric Noll, of strategic planning for quehanna Management G an arbitrage trader over And Peter Marber, man director of Wasserstein ella Emerging Markets G in New York, who curr

THESE EMERGING MARKETS BOAST FUTURES EXCHANGES

BRAZIL	It's No. 3 in world volume
CHINA	40-plus exchanges pared to 15 last year
HUNGARY	Budapest has growing currency contracts
MALAYSIA	New stock-index futures going slowly
PHILIPPINES	Amid political woes, 1995 volume drops by 69%
RUSSIA	Currency and commodity derivatives trading
SOUTH AFRICA	Equity indexes trade more than gold

. . . AND THESE WILL OPEN IN A YEAR OR SO

Argentina, Czech Republic, Greece, India, Mexico, Poland, Portugal, South Korea, Taiwan, Thailand, Turkey

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trades individual stocks on foreign over-the-counter markets, looks forward to being able to trade an index that represents a basket of stocks on local futures exchanges instead. In less transparent OTC trading, it's easier to get stuck with an illiquid holding, he points out.

CHINESE CRACKDOWN. Yet launching a new exchange is risky. China had more than 40 loosely regulated exchanges trading commodity and financial products before a government crackdown last year pared the number to 15. Experts say only a handful are needed. New contracts are risky, too. While the Chicago Merc can afford to trade dozens of contracts, most startups should list only a few, advises Azizah M. Jaafar, a general manager at the Securities Commission of Malaysia. In Kuala Lumpur, palm-oil futures retain a much bigger following than nascent stock-index contracts. "We are developing our own local products for our own local needs," Jaafar says.

Will the exchanges in the industrial world preempt the local exchanges? No one knows for sure. But if they do, the local exchanges could have a tough time recovering. Once established, a liquid futures market rarely migrates from one exchange to another in the same time zone. Some traders say the U.S. versions of Mexican contracts have become so entrenched that Chicago is likely to remain their primary market.

> Traders speak of "roach-motel" markets, where investing is easy but getting out is not

In contrast to the Merc, the Chicago Board of Trade, its crosstown rival, seems to be hedging its bets. It's forming joint ventures with new exchanges in countries such as Poland and Argentina. Once new contracts develop locally, CBOT members could trade them. "These exchanges are going to happen with us or without us, so we're trying to [participate] in as risk-free a fashion as possible," says Board of Trade Chairman Patrick H. Arbor.

No doubt some of these new exchanges won't work. But the winners will offer a safe harbor to investors who see big opportunities in seemingly uninviting places.

By Greg Burns in Boca Raton, Fla.

INVESTMENT FIRMS

DID SOMEONE SAY 'ABANDON BANK'?

Top execs are deserting CS First Boston

Here we go again. For the third time in the past six years, CS First Boston Inc. appears to be imploding. Since February, the Swiss-owned investment bank has seen some two dozen senior professionals bail out. Among them: Robert E. Diamond Jr., an executive board member and head of the fixed-income department; Tracy L. Van Eck and Lesley D. Goldwasser, managing directors in charge of asset-backed securities; and Thomas H. Hanley, a well-known bank analyst, along with his staff of six. Inside the firm, more departures are anticipated.

The obvious reason behind the flight: In late February the firm paid out bonuses that were sharply lower than expected in both the fixed-income and equity departments. In the fixed-income department, for instance, bonuses were 15% to 20% lower than those paid in 1994, a year in which bonuses had been slashed by as much as 50%. That was despite CSFB's $207 million in 1995 earnings, its second-best year ever.

INFLAMED. Recently departed executives say the bulk of CSFB's $455 million bonus pool went to a handful of top managers and to investment bankers, who had a very good year. Employees say they were particularly inflamed by President Allen D. Wheat's 1995 pay package of $9 million. That came on top of the $25 million former employees say he received from 1990 to 1995 in compensation from Credit Suisse Financial Products, the derivatives unit that he helped build. "No one gives a damn anymore," says a former employee. "Everything

WHEAT: *He put a damper on bonu*

is being done for Wheat and the Sv

The problems go deeper than For years CSFB, 68.8% owned by rich-based CS Holdings, has been mied by battles with its Swiss p over the firm's long-term strategy management. Now, current and fo employees question whether Whe ruthlessly bottom line-oriented mar is willing to spend enough to mai CSFB as a full-service investment or whether his real agenda is to pa down to a proprietary trading and gers and acquisitions boutique. If went this route, "they could get half to three-quarters of their fixe come department," says Perrin I an independent brokerage industry lyst. Of 5,300 CSFB employees, 1,10 in fixed income. Already, the firm lost clout in key markets (table).

"PLAYING WITH FIRE." CSFB spoke Maynard Toll denies the firm is cha its stripes. "CS Holdings is planning one of the top financial services grou the 21st century," he says. "So would they allow CSFB to become a tique?" Still, CS Holdings has had su with smaller units before, notably it Suisse Financial Products, Wheat headed until March, 1995.

Others maintain that lower bo were simply a reflection of the so-so formance of the equity departmen $100 million in mortgage-backed s ities losses that depressed the e fixed-income department. Wheat's re now is offering additional bonus che certain employees. He is also tryi fashion a formula-based compens system that will allow staffers to accurately anticipate their pay. Wheat is walking a tightrope. "Th playing with fire because they're ri the franchise" when they lose so employees, says a competitor. "At point, they fall off everybody's scre

By Leah Nathans Spiro in New

"FIRST" BOSTON

CSFB's market-share rankings i major businesses

	1992	
DOMESTIC STOCK AND BOND UNDERWRITING	4	6
JUNK-BOND UNDERWRITING	3	6
EUROBOND UNDERWRITING	3	7

DATA: SECURITIES DATA CO

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BY GARY WEISS

COUNTDOWN TO A LORAL LAUNCH

Is it too late to cash in on Loral (LOR)? That's the question for investors in light of a soon-to-be-completed $9.1 billion acquisition of the New York defense contractor by Lockheed Martin. The union will give Lockheed all of Loral's massive electronics business, while Loral stockholders will get $38 a share in cash plus shares in a new company, Loral Space & Communications. Some pros are snapping up Loral, wagering that Loral Space will take off like a Thor missile.

At the current prices, this deal doesn't look enticing. Since the buyout was announced, in early January, Loral shares streaked from 36 to 47 (chart). And any prospective buyers must act fast: The tender offer, extended by regulatory delays, is set to expire on Apr. 5. Nevertheless, hedge funds and spin-off analysts think investors would be smart to buy Loral in the short time remaining.

THE CHEAP WAY INTO A SPIN-OFF

DATA: BLOOMBERG FINANCIAL MARKETS

They feel Loral Space is way undervalued at its implicit price of 9—that is, 47 minus the $38 in cash. "This is a pure play in a fast-growing field, and we think it's worth a lot more than the market values it," says Andy Abrams of CWH Associates, a New York money manager whose flagship Worthington Growth hedge fund gained 72% last year. CWH is buying Loral as a way to get Loral Space on the cheap. Abrams thinks Loral Space, which will be publicly traded, will climb from 9 to 15 or so in the coming year.

The new entity will contain all of Loral's space and satellite businesses—and big stakes in other companies, including 31% of satellite outfit Globalstar Telecommunications. Investors are betting that Loral Space will be a power in growing private-satellite field.

Loral Space will begin life with a squeaky-clean balance sheet—$700 million in cash and no debt. Its main asset will be Globalstar, a NASDAQ-traded company that is developing a $2 billion worldwide satellite-communication system. Another holding: 33% of Space Systems/Loral, a private satellite maker. Loral Space will also take over Loral's interest in satellite data projects and in communications franchises in Brazil, Canada, and Mexico.

One caveat, notes Murray Stahl, research director of *Spin-off Report* newsletter: Loral Space's business will be capital-intensive, with no guarantee of success. Still, Stahl sees it as undervalued—with excellent prospects.

A DIM VIEW OF THIS JERSEY BANK

Dale Jacobs, manager of Financial Investors fund, which specializes in bank and financial stocks, is a hedge-fund manager of the old school: He buys strong stocks and shorts weak ones in the same industry. But shorting banks can be hazardous at a time when interest rates—and consolidations—have been favorable to financial stocks. Nevertheless, Jacobs has taken a short position in one little-followed bank that has been a solid performer this year: Trust Company of New Jersey (TCNJ).

Based in Jersey City, TCNJ lends to small businesses and consumers through statewide branches. The company's latest financial announcement, in January, was upbeat: Net income in 1995 was $13 million, or 62¢ a share, up from $3.9 million, or 17¢, the year before. There was a "significant increase" in its loan portfolio, thanks to successful marketing of consumer loans and home mortgages.

But Jacobs is unimpressed. Even with improved earnings, TCNJ's financials are nothing to write home about, he says. He notes that TCNJ's return on assets is about 0.5%, half the 1% average for community banks. At its recent price of 14⅞, the stock trades at 1.9 times book value. Jacobs notes that the average community bank is not only more profitable, but also cheaper: The usual price-to-book ratio is 1.6.

Nevertheless, the stock has performed much better than similar banks this year despite a near-total absence of analyst coverage. TCNJ shares have gained 12% year-to-date. The market's high esteem for TCNJ, in Jacobs' view, is unwarranted. "That only makes sense if the bank is viewed as a takeover candidate," says Jacobs. But it is not—and the high price hardly ma it tempting to a suitor, in his view

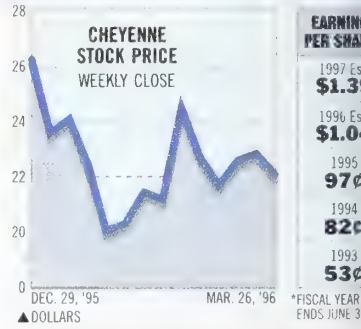
STICKING IT OUT WITH CHEYENNE

An old Western song includes the frain "I'm leaving Cheyenne." of investors have been doing that—leaving Cheyenne Softw (CYE). The stock has dipped 17% far this year. But Lawrence Auriar top picker of small-cap stocks and manager of the Kaufmann mutual f isn't about to pull out. He sees C enne, headquartered in Roslyn Heig N. Y., poised for better things.

Cheyenne makes software, ma data-backup and virus-protection p ucts, for local area networks (LAN one of the fastest-growing segm of the computer business. But la excessive inventories have depre its profits and stock prices. Earning the second quarter of 1996, ended Dec. 31, were below expectations. Auriana believes Cheyenne has b excessively pummeled by the mar

Recently, Cheyenne concluded a with Symantec, which makes No utility software. Symantec agree bundle Cheyenne's ARCserve softw into Norton's LAN product lines— ther strengthening Cheyenne's mar

READY TO RECUPERATE?



DATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEA

ing. Cheyenne has also developed p ucts to combat viruses that att Microsoft Word documents. And ARCsolo 95 is a storage product signed for use with Windows 95.

Despite a strong stance and an pected surge in profits next y Cheyenne's Amex-traded shares just 21 times estimated 1996 ea ings—one of the lowest price-earni ratios in the business. Within a y Auriana expects the stock to reach or so, up from its current 22.

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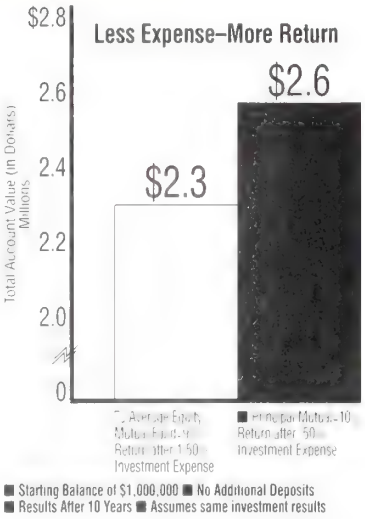

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AEROSPACE

DEFYING THE LAW OF GRAVITY

Prices for 777 engines keep plunging. So why are manufacturers flying high?

Locked in a spirited price war to supply engines for Boeing Co.'s new 777 airliner, the industry's Big Three seem to be practically giving their biggest engines away. General Electric, Pratt & Whitney, and Rolls-Royce are selling high-thrust turbines for up to 75% below list prices—too little to earn a payback on total investments of more than $4 billion. With more expensive projects in the works, it's hard to see how anyone can make a buck.

Overall, though, the Big Three are making money—a lot of it. At General Electric Co.'s jet-engine division, operating income rose 26%, to $1.2 billion, last year. The Pratt & Whitney unit of United Technologies Corp. saw a 39% increase, to $530 million. Rolls-Royce PLC's jet-engine unit posted a 92% gain, to $269 million, including $46 million from newly acquired Allison Engine Co.

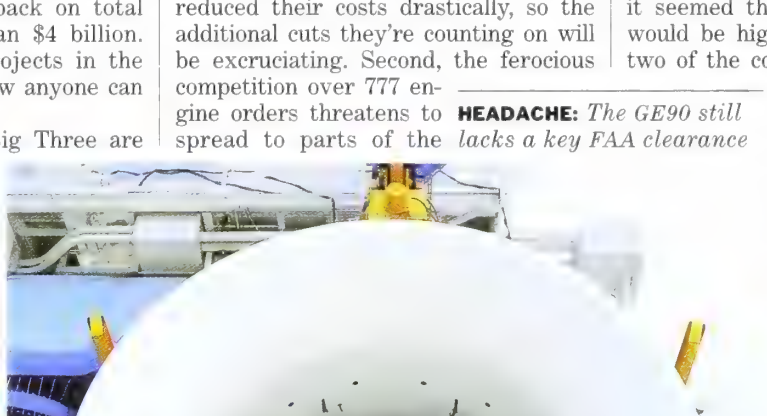
How long can they keep up this feat of levitation? So far they've done it through rigorous cost-cutting—as well as with strong results from other, less competitive businesses, such as spare parts, maintenance, and engines for smaller aircraft, high-speed ferries, and the like. That has given them sustenance for the war over 777 orders. Each hopes to win enough volume to bring down manufacturing costs and eventually earn a return on its share of that $4 billion investment. Right now, analysts estimate the engines are selling for only about half their full cost, once development and overhead are figured in. As Charles L. Chadwell, GE's vice-president for commercial engines, dryly observes: "It's not much fun to make things and not make any money off them."

It might become even less amusing. First, the engine makers have already reduced their costs drastically, so the additional cuts they're counting on will be excruciating. Second, the ferocious competition over 777 engine orders threatens to spread to parts of the business that have been relatively tered. Pratt & Whitney President J. Krapek worries that the rules c once-lucrative engine game may changed for good: "Right now the ness does seem a little irrational."

POWER DESIGN. Things might turned out differently. A year it seemed that supplying 777 en would be highly profitable for at two of the competitors. Pratt & ney's PW4084 engin won more than half orders for the 77 looked as if GE woul tle into second plac Rolls might disap altogether.

But Rolls, far packing up its slide came out of now with rock-bottom pr to beat its America vals in two signif bids, including one longtime Pratt cust Singapore Airlines Now, Rolls shares billing with Pratt. GE lacks certification the Federal Aviatio ministration for flights over water cause of early prob with parts burning high temperatures. GE expects FAA clea soon, the whole ex ence has been painf lags in 777 share de spending the most— than $1.5 billion i search and develop It will probably b least 10 years befor program breaks Chadwell says—twi long as GE mana thought when they mitted to the projec

To cope with prices, all three e

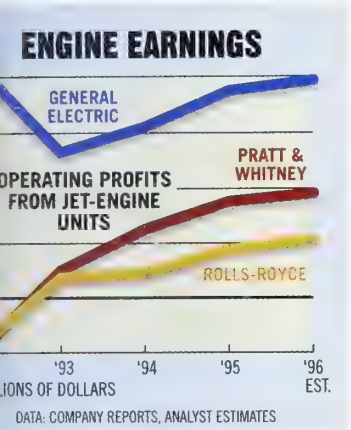


HEADACHE: *The GE90 still lacks a key FAA clearance*

ROARING BACK Rolls-Royce came out of nowhere to beat GE and Pratt with rock-bottom pricing in two key deals. Now, all three must cut costs more deeply

s have blasted away at costs. have pared about 40% of their orces and shuttered millions of feet of manufacturing and office GE is subcontracting more. And it ing subassembly of fans, airfoils, e like from Cincinnati to cheaper ns in Kansas and North Carolina. ompanies have cut supplier rolls queezed R&D spending. Yet they ursue still more cuts. "We have relentless on cost reductions to ve position in the marketplace," eorge A. David, chief executive of l Technologies.

the same time, each company is



to make the most of its own ths. GE intends to turn its GE90 headache into an asset by using ion on future, stretched models Boeing 747 or Airbus A340. The is designed for more power than der engines of Pratt and Rolls. vhile, GE has combined its spare- and engine-overhaul businesses fast-growing $2 billion unit. On 2, GE announced a 10-year, $2.3 deal to maintain British Airways GE, Rolls, and Pratt engines.

IG HUSH KITS. Pratt aims to hold sition in the widebody market by eting the reliability of its PW4084. att & Whitney Canada Inc. divi- s doing a booming business in prop and turbofan engines for commuter craft and business jets. also is trying to build a commer- pace-launch business in coopera- vith Russia's Energomash, using ame rockets that once powered intercontinental missiles. "Hush to quiet its 1960s and 1970s es are another good business.

Rolls, the key to success is rice. Some analysts say Rolls's that it will make a profit on Singapore 777 order may rely pjected cost savings of 40% over ext four years. Like GE and Pratt, is stepping up efforts to win national military orders—which s that profitable niche is com-

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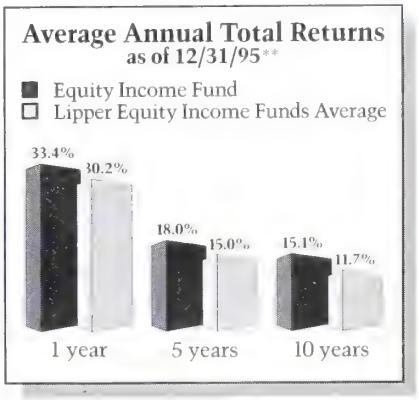

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[1]Strategic Insight Simfund. *As cited in *Forbes* magazine (Mutual Funds issue) dated 8/28/95. The fund's performance from 3/31/84 through 6/30/95 was considered. Honorees are chosen annually; current roster includes 20 funds. Candidates must be open to new investors and have had the same management for at least 5 years. Sector funds are excluded. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor.

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—Philip Kotler,
Professor of International Marketing,
J.L. Kellogg Graduate School of Management

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AL RIES
co-author of *The 22 Immutable Laws of Marketing*

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Industries

ing under price pressure as

As a respite from price wars engine makers would dearly love single-source deals. Being the only plier for a given plane provides p power and the certainty that dev ment costs will be spread over a base. Sole sourcing can be good fo lines and aircraft makers, too. Fo airlines, it's easier to maintain make of engine. For aircraft man

THRUSTING FOR PROFIT

The Big Three jet-engine make locked in a price war over engines for the Boeing 777, are ing to improve their profitabil Some strategies:

GENERAL ELECTRIC Hopes a modified version of its large GE will be right for a planned stret version of the Boeing 747. Mai nance business is strong. Coun on double-digit growth from marine and industrial turbines.

PRATT & WHITNEY Aims to develop the low-thrust PW6000 the 100-passenger "Asian Express" jet planned by a Sino-Korean consortium. But Rolls a GE also want that business.

ROLLS-ROYCE Riding the momentum of 777 wins in Sing pore and Malaysia. Pushing ind trial turbines and looking to cu an additional 40% from produc tion costs over four years.

turers, wing struts are easier to b they only have to accommodat type of engine.

Both GE and Pratt were hopi win sole-source status on McDo Douglas Corp.'s new MD-95 aircra stead, the initial order, from dis carrier ValuJet Airlines Inc., wen partnership of Rolls and BMW. The major skirmish in the engine war be powering the so-called Asian press—a 100-passenger jet planned Chinese and Korean consortium. F Krapek says his company will bui engine only if it can win a sole-s order. But that seems an unlikely come. Earning a return on a jet e will be no picnic. With prices u ever-growing pressure, it will be to keep profits up.

By Tim Smart in New Haven, Seanna Browder in Seattle and Dawley in London

"SAS software is a driving force n understanding business data."

Dianne Hurley and Mary Niles of the Circle K Corporation.

hen you're the largest independent ailer of gasoline in the U.S., with er 2500 stores and annual sales ping $3.5 billion, one small change fuel prices can have a big impact the bottom line. That's why rcle K Corporation's Petroleum oducts and Services Division ns to the SAS System.

s analytical capabilities, ease use, and ability to handle large ounts of data put it above and yond other software," says Mary les, Petroleum Systems Analyst the division.

tting Circle K's Information eeds to the Letter

rcle K's business analysts say S software has meant tremendous e savings in day-to-day business ks. According to Dianne Hurley, rector of Petroleum Pricing and dering for the division, "SAS soft- re lets us forge forward with our ta, enabling us to create pricing dels, volume predictors, and dgets in record time. This, in n, lets us make decisions much re quickly."

ta regarding gasoline pricing gathered into GMARD—short Gasoline Marketing Analysis lational Database—a system built th SAS software. From there, the ta is transformed into meaningful siness information for executives roughout the Petroleum Products d Services Division. Niles says, "The software lets us easily add other applications and functionality." Now in development is a SAS-based EIS for non-technical executives. "It's a big goal of ours to provide executive information systems that allow people at the top to quickly and easily view data and make good business decisions. To them, a picture is worth a thousand words," adds Hurley.

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GIBARA: *Can he make Goodyear "the undisp world leader"?*

EXECUTIVE SUITE

STAN GAULT'S DESIGNATED DRIVER

New Goodyear CEO Samir Gibara has a tough act to follow

Anyone wondering if Samir F. Gibara can pilot Goodyear Tire & Rubber Co. through a hellishly competitive industry might contemplate Gibara's record in leading Goodyear Europe during the stormy early 1990s. When he arrived, General Motors Corp.'s purchasing czar, J. Ignacio López de Arriortúa, was demanding price cuts from suppliers, and powerhouse Groupe Michelin had already slashed its prices. But Gibara told López he would not supply tires at such low prices—though it meant turning away some $40 million in business. He successfully made up the loss with higher-margin replacement sales.

It would be easy to underestimate the slight, soft-spoken Gibara. But Jacques R. Sardas, a former top Goodyear executive, likens him to the unprepossessing guy in the Western who strolls into a bar and makes quick work of the bullies. "Sam walks in with a very low profile," says Sardas, "and in a very short time, he controls the situation."

Gibara, who became Goodyear's CEO on Jan. 1, now faces his toughest brawl yet. His ambition, he recently proclaimed, is to return Goodyear by 2000 to "its rightful position as the undisputed world leader" of its industry, where it ranks behind Michelin and Japan's Bridgestone Corp. And he must start by proving that Goodyear can prosper without Stanley C. Gault, who retires as chairman on June 30.

SAM GIBARA'S INTERNATIONAL CLIMB

APR. 23, 1939 Born in Cairo
1964 Joined Goodyear France
1970 Moved to Brussels for Goodyear Europe
1972 Helped create, then ran operations in Morocco
1976 Named CEO of Goodyear France
1989 Named CEO of Goodyear Canada
1990 Became vice-president in charge of Goodyear Europe
1992 Moved to U.S. as a corporate vice-president
1996 Became CEO

Gault, who had retir Rubbermaid Inc.'s CEO the reins in 1991, Goodyear was staggerin der $3.7 billion in deb cleaned up the balance recharged marketing, ar livered 19 consecutive ters of profit gains pushing aggressively int na, India, and Poland. year, Goodyear withst 16% jump in raw-mat costs to post a 7% profit to $611 million, on sal $13.2 billion, up 7%. The shot up 35%. Gault, not rector William C. Tu "leaves some very big shoes to fill

The key credential Gibara brin the challenge is his experience ab Goodyear is pinning most of its for growth on its foreign business, already contributes 45% of sales 56% of profits.

Born in Cairo in 1939 to we Lebanese parents, Gibara, who ha sisters, grew up in a cosmopolita lieu. He spoke French at home bu learned English, Arabic, and some ian and Greek. His father died he was eight, and as a teenager, h gan helping with the family cotton- ing business. "I had a very strong of responsibility when I was young," he says. In the late 1950s, of the Gibaras' land was nationa and the family later moved to Fra

SLIGHT DETOUR. After getting a d from Cairo University in 1960, G earned a Master's from Harvard ness school. He joined Goodyear F right after graduation, working in fi and sales-related posts until 1970, he went to Goodyear Europe in Bru

In his next post, Moroc turned a profit in four y well ahead of expecta Returning to Good France as CEO in 197 took on mighty Michelin an ad campaign, featu Formula 1 driver Alain P that significantly boosted ket share.

In 1981, Gibara quit G year for a marketing po International Harveste But Harvester was in w shape than he had realiz he moved too hastily says—and after two year

he aroma of roast duck
istracts you from your report.
steaming towel wipes the
tress away. You sit back and
s the Chardonnay you were
ust thinking about appears,
ou decide...

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could get used to this.

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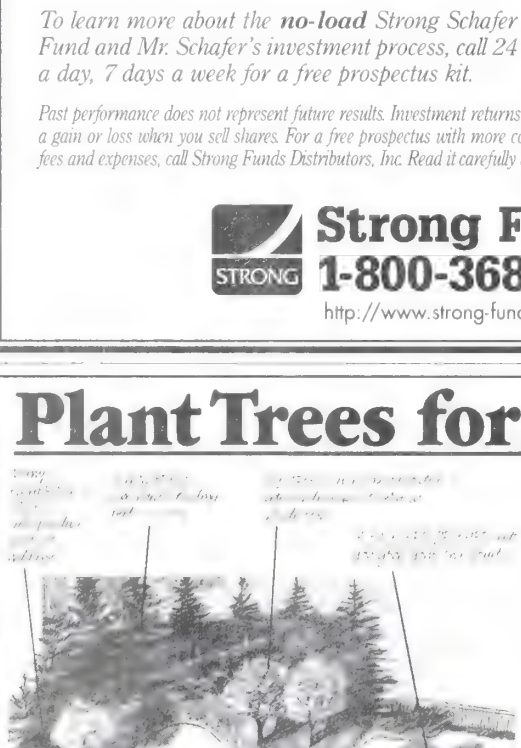

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The National Arbor Day Foundation

People

returned to the helm of Goo
France. In 1989, he became c
Goodyear Canada and a year later
president in charge of Goodyear E

In 1992, Gault brought Giba
Akron to write a new strategic
then made him acting CFO and later
of the North American Tire unit. W
months of joining Goodyear, Gault
he saw that Gibara was "a top-
candidate" for bigger jobs. In r
mending Gibara to Goodyear's bo
CEO, Gault cited some 17 strong p

Gibara is so intensely private t
is discomfited by personal ques
"I'm not that famous," he protest
is devoted to his wife, Salma, a
sisters. In recent years, he has
taken a week off to be with his
owed sister, Mona, while her te
son had major surgery.

At work, he's known for pla
Preparing an outdoor press ever
spring, he made provisions for rai
or snow. (It snowed.) He demanc
same kind of anticipation in all cor
undertakings. Says Sylvain G. Va
head of Goodyear Europe: "He d
want you to do one step before kn
the second or the third." But h
micromanager. "I believe in deleg
in trusting people," he says.

As head of North American
Gibara had to scramble to ease te
with dealers upset by Goodyear's
sion to sell its brand through oth
tailers. Now, he must improve p
in North America, where margin
under pressure. Already, he has c
idated some operations with subs
Kelly-Springfield Tire Co.

NEW IMAGE NEEDED. Like Gault, G
will pump out new products. He'll
ably step up acquisitions. Most
he'll expand Goodyear's global pre
taking advantage of low-cost prod
facilities from Poland to Indone
serve established markets, and inv
more in Asia and Latin America.

Will all this win back the top
for Goodyear? Gibara stresses th
won't expand simply "for the sa
size." And Michelin and Bridge
have similar plans for growth.

Moreover, Gibara must create a
image for Goodyear, which is n
synonymous with Gault. The only
to deal with that task, he says, "is
yourself. If I'm going to [try to] b
other Stan Gault, I'll fail." It wo
long before he is out from unde
legendary CEO's shadow: Gault i
only retiring as chairman but also
ing the board. Then, the well-tra
Gibara can show if those big shoe

By Zachary Schiller in A

Helen Keller's Vision at Work

A young adult like Bradley Cupit, who is deaf-blind, brings more than just good work to the business that hires him. His presence promotes better understanding, cooperation, and good will among all employees. Corporations such as Avis have discovered this while working with the Helen Keller National Center for Deaf-Blind Youths and Adults. Find out how even a small company can help contribute to a world of better understanding. Call our placement specialists at 1-800-255-0411.

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*Operated by Helen Keller Services for the Blind Agency: GTFH, 114 Fifth Avenue, New York NY 10011

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IN COUNTRIES WHERE PEOPLE CAN'T EXPECT TO SEE FORTY, AT LEAST THEY CAN EXPECT TO SEE.

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e 1996 Business Week

residents Forum

siness Week Presidents Forum Keynote Speakers: *Left:* **Dr. William J. Perry,** U.S. Secretary of Defense; **eneral Colin L. Powell,** former Chairman, U.S. Joint Chiefs of Staff

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Wharton Executive Education

Sixth Annual Business k Presidents Forum was an rant celebration of success. The ns of America's largest enterprises ted all the joy and confidence their performance has earned them. t the forum also revealed leadership rn about America's future. One red years ago the Industrial Revolu- rought spectacular economic growth s socialism and militant unions. n '96 discussed what companies can ensure that the current economic ormation is a positive and unifying ience for all Americans.

How Do You Feel About Big Business?

"Four-out-of-ten Americans think big corporate mergers are bad," **Frank M. Newport**, editor-in-chief of The Gallup Poll reported as he opened the '96 Forum. "Only 15 percent think they're good. That leaves 46 percent who are probably ready to go either way depending on how well you do your job communicating."

"As business leaders, our collective response to this challenge will undoubtedly define our country's future competitiveness," says **W. James McNerney, Jr.**, president and CEO of GE Lighting. "In spite of America's well-documented ills, change and adaptation are what this country does best.

W. James McNerney, Jr.
president and CEO, GE Lighting

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by Scott Shuster, consultant to Business Week Executive Programs, and chair of The 1996 Business Week Presidents Forum.

The 1996 Business Week Presidents Forum

The relative flexibility of our social, economic, and financial structures allows resources, both capital and human, to flow in and out of opportunities very quickly. This opportunity-driven culture does differentiate us, and is a tremendous advantage for this country.

"At the business level we must each do our part to increase the number of men and women whose potential to contribute will be realized instead of wasted," says McNerney. "We should empower everyone to contribute. Empowerment engenders self-confidence, which is key to maintaining America's ability to adapt faster than anyone else."

"America is the most fluid society that we know about," agreed **Bernard Schwartz**, chairman and CEO of Loral Corporation. "Our national slogan should be: 'We change without revolution.' But that does not mean that American change is without pain. All CEOs ought to be concerned about whether the current disillusionment, particularly among American youth, will lead to disaffection. If it does, the next generation may be unable to use change in the American way, as an opportunity. One of our roles as business leaders should be making sure the positive elements of change are brought to the public mind."

Eloise Anderson
Director, California Department of Social Services

Ignoring America's Most Valuable Resource

"Most American companies never use the knowledge available to them."

Robert E. Mittelstaedt, Jr.
vice-dean, The Wharton School and director, Wharton Executive Education

Vice Dean **Robert E. Mittelstaedt, Jr.**, director of Wharton Executive Education, chose the Business Week Presidents Forum to report a disquieting trend.

"When every company you compete with has quality, customer-focus, empowerment, and the 'right size,' these factors turn into managerial commodities. Raw knowledge becomes the sole competitive differentiator.

"Knowledge is a critically important corporate resource. Companies compete on the knowledge they command. It is up to the company leader to make knowledge acquisition a cultural characteristic of the company. Regrettably, too few American CEOs are doing this. Foreign competitors are much more deeply committed to knowledge development. In Wharton's five-week Advanced Management Program, 70 percent of our participants are foreign. Most American companies never use the knowledge available to them. They ignore one of their country's most universally admired resources — and they are doing so at their competitive peril."

Needed: A Sense of Personal Responsibility

"People who work at The Home Depot," said co-founder and chairman **Bernard Marcus**, "they are shareholders not only in our store but in themselves. They know they can elevate themselves through hard work. They know this because we communicate this philosophy to our people. We also explain that they are shareholders in society, and we encourage every employee to give something back in personal effort.

"It is we," said Marcus, "the business people in this room, the real capitalists of America, who advance a philosophy of giving and an understanding of personal responsibility. Big business must lead the way. 'Capitalist' and 'big business' — words have an onerous sound. We have gotten a very bad rap. Businesses like The Home Depot are working to overcome that bad rap."

What Government Can Do

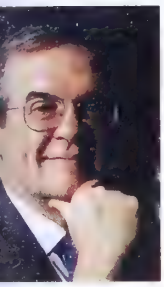
Eloise Anderson, California's iconoclastic Director of Social Services, called on the presidents to end initiatives that excuse people from seeing to their own needs. "Many Americans believe they are entitled to a risk-free life," she said. "They want you to take responsibility for their lives. They know it, but they are asking for a return to slavery. Business leaders should speak up about citizenship, and the role of labor, and what you require in an employee. Explain that gender and skin color do not a job create. Most welfare recipients have no idea what it means to compete. Many have been born marginalized and convinced themselves that they are exactly where you want them to be — welfare is your plan for them and their entitlement for life. It is up to you to correct their view."

William J. Batton
Police Commissioner, New York City

When personal responsibility fails completely, another type of public servant is called in to help. New York Police Commissioner **William J. Bratton** and his corporate peers have business management methods have helped cut crime 27 percent.

"The 'Jack Webb' reactive police model is no longer up to the challenge. Society was losing market share to crime," responding to Mayor Rudolph Giuliani's commitment to restore safety and quality of life

ıched the largest application of a new *tative* model, 'community policing,' that s behavior and actually cuts crime. At the , we have added a new ingredient to 'com- policing': corporate-style, results-oriented ement and measurement. We have invested nology and improved intelligence, devel- ommunity partnerships, merged some police nd focused on our core business of reduc- ne and maintaining order. Business is good e shareholders are pleased, and we are ex- ; another good year in 1996."



sinesses ywhere ıld be fight- or such win incen- ."

nce M. ermott
The American te of Architects

A Government That Thinks Like a Bank

"No one in Washington set out to create disincentives to savings or work, nor to foster the break-up of families, nor to gut the hearts of our cities," said **Terrence M. McDermott** CEO of The American Institute of Architects. These are all unintended consequences of government incentives, an immense problem.

"To end unintended consequences, the government need only apply common investment banking principles to all its decision making. Begin ring the books of 'non-performing' prefer- entitlements, guarantees, supports, and ıces that encourage uneconomic behavior. ext, like an investment banker, look for the e points where small incentives will yield , jobs, and taxes. For example, $3 billion credits for low-income housing has reaped llion in private investment, 90,000 jobs ear, $2.8 billion in wages, $1.3 billion in x revenues, and more than 850,000 new and itated housing units. That's a good incentive. he proposed Commercial Revitalization Tax is similar. It will draw commercial invest- ment into distressed areas. Businesses everywhere should be fighting for such win-win incentives. Sensible government investments like the Low Income Housing and Commercial Revitalization Tax Credits could be opening volleys in a revolution that changes the way our government thinks and works."

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No Results, No Rewards. No Exceptions, No Excuses.*

The message has made it to the top: 70 percent† of company leaders at the 1996 Business Week Presidents Forum report that reengineering has become permanent at their firms. Their corporate rejiggering never ends because it is never done.

"The rapid, global change we are all experiencing," said **Philip R. Thomas**, founder, chairman, and CEO of Thomas Group, Inc., "is the cause of endless management and leadership dilemmas. Strategic dilemmas; organizational, labor, and process dilemmas; customer dilemmas; financial dilemmas. They arrive on desks across your organization one at a time, completely fragmented. Every person sees each dilemma differently and proposes a different solution. Then they compromise on imperfect solutions that cause new dilemmas.

"As leader, only you can change this. Demand that every solution meet the test of direct impact on top and bottom line results, and cause no new dilemmas along the way. It is the fundamental task of every president to lead his organization to a single, holistic vision that links every dilemma to its root cause, and devises solutions that work in terms of real results.

"Achieve this clarity of view and purpose and you will find that the benefits are enormous. When you can see all processes, all interactions, all the potential leverage, your decision processes are greatly simplified. Problem resolution is accelerated by years, in many cases. When all change is linked to clear, measurable results, it also becomes easy to explain why you're doing what you're doing as the leader."

* © *1996, Thomas Group, Inc., Irving, TX*

† *Wireless audience response system provided by* ***Meridia Interactive Information Services****, Jenkintown, PA*

The 1996 Business Week Presidents Forum

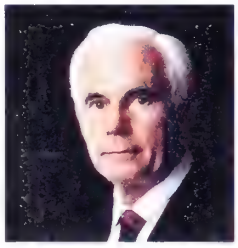
"Every change must meet the test of direct impact on results."

Philip R. Thomas
founder, chairman, and CEO, Thomas Group, Inc.

The 1996 Business Week Presidents Forum

John R. Horne
president and CEO, Navistar International Corporation

Marvin Runyon
Postmaster General and CEO, U.S. Postal Service



David W. Johnson
chairman, president, and CEO, Campbell Soup Company

Robert D. Kennedy
former chairman and CEO, Union Carbide Corporation

When The Going Gets Tough...

"Navistar may be the world restructuring champion. We got a new name (we used to be Internatio Harvester), left markets we used to lead, and laid off 90,000 people. But restructuring is only surviv Success demands renewal. Renewal is about people, and our people had lost confidence. How do yo make people believers again, make them feel like winners, when they don't have any successes to point to? And how do you create successes when your people don't feel like winners?

John R. Horne, president and CEO of Navistar International Corporation, whose leadership of corpora renewal took Navistar's market value up 145 percent and returned the company to No. 1 in its markets.

"When change sent American businesses scrambling for ways to inspire creativity and excellence, we discovered that the democratic principles we cherish as a nation — liberty, fraternity, equality — are also vital for competitiveness. What is empowerment but an expression of liberty? What is teamwor but an expression of fraternity? What is diversity but an expression of equality? What a change from the business dictatorships of our past, hiring people who all looked and thought alike."

Marvin Runyon, Postmaster General and CEO, U.S. Postal Service. Close to $3 billion in 1995 profits and a vastly improved public image give credence to the democratic changes CEO Runyon has brought to the U.S. Postal Service.

"Everything boils down to the art of winning. I want to be continuously in the top quartile of our industry in quarterly results, and at the same time make the future-oriented strategic investments th take five years to bring returns. The conventional wisdom says you can't win at both. But I maintain we can. We must."

David W. Johnson, chairman, president, and CEO of Campbell Soup Company: earnings up 18 percent per year and market value more than doubled on Johnson's watch.

"At the end of the day, the hold you have on your best people is whether your vision is, in their eyes worthy of their commitment, and whether you have credibility."

Robert D. Kennedy, in his first speech after stepping down from a blazingly successful nine years as chairman and CEO of Union Carbide Corporation. Kennedy's restructuring saw revenues fall from $9 bill to $4.5 billion, but under his leadership net income rose 650 percent.

In The Pentagon, As In Industry...

As a measure of the exhilarating global transformation that enlivened the Forum, U.S. Secretary of Defense **Dr. William J. Perry** shared his 'top 10 list' of "things I never imagined a Secretary of Defense would do." Perry's list included Russian and Warsaw Pact troops training with Americans on U.S. soil, a Russian brigade joining Americans on a peacekeeping mission, and the Bosnia peace talks in Dayton, Ohio.

But Perry's list of transformative changes included many management issues every company president would know:

"I never imagined that I would actually dismantle the system of military specs, but that whole system has been turned on its head. A few years ago if a defense program manager wanted to use a commercial or industrial specification, he'd ha to get a waiver. Today he has to get the waiver use a MilSpec."

And: "I never imagined that as Secretary o Defense I would be worrying about day care. it's turned out to be a critical part of quality o for our military forces, and quality of life is ke to maintaining readiness. We invest an enorm amount in training. The key to retaining our m tary personnel is maintaining a reasonable and adequate quality of life.

"These are all dramatic changes," said Per "definitely for the better."

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COMMENTARY

By Mike McNamee

A FLAT TAX MIGHT MAKE APR. 15 TRICKIER

springtime, and you're strug-
ing with that pesky Form 1040
d its alphabet soup of schedules.
g about now, the flat tax
nised by GOP tax reformers sure
ds inviting. Fill out 10 lines on a
card, pay one rate—say, 17%—
you're out the door and into the
hine. Sounds heavenly, right?
ot so fast. Behind that celestial
n is one of the perverse rules
xation: A simple
doesn't mean a
le tax. As cham-
ed by House Ma-
y Leader Richard
rmey (R-Tex.)
former Presiden-
contender Steve
es, the flat tax
ld retain some of
rickiest features of
ent law. It would
new wrinkles of its
. And rather than
the Internal Rev-
Service off Ameri-
' backs, a flat tax's
ng loopholes would
IRS auditors busier
ever.

ven without Forbes
ing it, tax reform remains very
h alive. GOP nominee-in-waiting
Dole pledges to support a "fair-
latter, simpler tax" if elected.
flat tax would mean big changes:
ould wipe out itemized deduc-
; exempt individuals' interest,
dends, and capital gains from tax-
nd let businesses write off new
pment immediately.

US DEPENDENTS. But that's no
fort for millions of taxpayers
moxed by the first two questions
heir 1040s: What's your filing sta-
and who are your dependents?
se two lines take up 6½ pages in
1040A instructions. "That's
re people get stuck," says H&R
k Inc. researcher Susan Van Al-
e. "The law is simple—it's mar-
e and family life in America
's complicated."

rmey's plan invites abuse. The
tax doubles the exemption for
dependent, but the postcard
sn't leave space to list dependents. Seven million bogus dependents—dogs, cats, imaginary friends, etc.—vanished when the IRS began requiring names and Social Security numbers in 1988. To prevent their return, the postcard must expand.

The self-employed would face more paperwork. Now, a small-business owner reports profits on his personal tax return. To claim the flat tax's personal exemptions, he would have to pay himself a salary, file quarterly and annual wage reports, and fill out two tax returns.

Form 1 ARMEY-SHELBY FLAT TAX FORM 1998

Your first name and initial	Last name	Your social security number
Present home address		Spouse's social security number
City, Town or Post Office Box, State and ZIP code		Your occupation
		Spouse's occupation

1. Wages, Salary and Pensions	1	
2. Personal Allowance	2	
a. $22,700 for married filing jointly	2(a)	
b. $11,350 for single	2(b)	
c. $14,850 for single head of household	2(c)	
3. Number of dependents, not including spouse	3	
4. Personal allowances for dependents (line 3 multiplied by $5300)	4	
5. Total personal allowances (line 2 plus line 4)	5	
6. Taxable wages (line 1 less line 5, if positive, otherwise zero)	6	
7. Tax (17% of line 6)	7	
8. Tax already paid	8	
9. Tax due (line 7 less line 8, if positive)	9	
10. Refund due (line 8 less line 7, if positive)	10	

SOURCE: REPRESENTATIVE RICHARD K. ARMEY

IRS auditors, far from being off America's back, would be busier than ever

The business tax retains some complex rules, too. Under the flat-tax proposal, foreign income is tax-free. But firms would continue to battle the IRS over transfer prices, which determine how much of their income is earned abroad.

But the biggest snafus would arise in areas where the flat tax creates new loopholes. Under Armey's plan, interest income isn't taxed. So an appliance store might offer an $800 refrigerator for $100—provided you take 24-month, 400% financing. You'll still pay $800—but the dealer will pay tax on only $100.

NIGHTMARE. Also look for claims for company cars and home offices to soar. Today, a business vehicle is written off over five years, with strict records required to prove business use. Under a flat tax, the write-off is immediate, even if the car is used only occasionally for business. If a room in a 10-room, $200,000 house is used as an office, the owners might take a $20,000 tax deduction—with little to stop them from using the room as a den the next year. "I've looked at the postcard, and I can't find a line for recapturing those deductions," says Deputy Treasury Secretary Lawrence H. Summers.

Flat-tax fans say that no one will waste time with such games when the rate is cut to, say, only 17%. But even at 17¢ on the dollar, a $25,000 car deduction is worth $4,250—a tidy savings. And with so many flat-tax loopholes, "anyone with a small business could choose not to be a taxpayer," says Los Angeles accountant Michael Russo. Of course, Congress could keep the home-office and company-car rules that curb such abuses today. But that hardly squares with GOP reformers' sweeping promises to get the IRS out of taxpayers' lives.

Make no mistake: Today's tax code is a nightmare. But that's no accident. Taxes are complex because people's lives and the economy are complex—and because Americans will always push tax breaks over the limits. The flat tax may make filing easier, but it makes avoidance easier still. That's certainly not the kind of "fairer, simpler tax" that most Americans want.

McNamee follows tax policy in Washington.

EDITED BY AMY DUNKIN

ONLINE TRADING: HOW TO MAKE MONEY THE NEWFANGLED WAY

When Abner Oldham launched his financial-planning practice in 1992 after nearly 20 years as a broker for E. F. Hutton and Dean Witter, he chose not to route stock trades back through his old firm. Instead, the Chattanooga adviser zaps them via computer to one of three electronic brokerages that offer dirt-cheap commissions and prompt executions. "I usually get my trade confirmed in less than 15 seconds," says Oldham, who uses PC Financial Network, Pacific Brokerage, and Charles Schwab's StreetSmart. "One thing I will not repeat is going back to the full-service arena again."

Thanks to the computing revolution, investors can tap into a growing number of online brokerage services that plug customers into the floors of the major stock exchanges. With fee schedules that begin as low as $15 per trade, these cyberbrokers could hold a certain appeal to anyone tired of shelling out hundreds or even thousands of dollars a year in commissions. But are these electronic discounters as much a bargain as they seem to be?

LOW COSTS. For the most part, the answer is yes—although they're not for everyone. Online brokerages are best suited for savvy investors who don't need handholding. And in their quest to keep overhead low, a number of online operations offer a narrower range of products than their full-service rivals and can be quicker than the big firms to nick you with hidden fees for everything from closing an account to requesting a stock certificate. There's also evidence that investors don't always get as good a price when buying or selling securities as can be ob through other channel

For some, those m acceptable trade-offs fo missions that are a fr of those charged by fu vice firms such as M Lynch and are even traditional discounter as Charles Schwab. H they do it? The onlin vices—some of which h to be offered by Sc Muriel Siebert (800 0711), and other di ters—say their reliar computers reduces costs and eliminates m der-entry mistakes, are expensive to unt They also say the In has slashed their com cations costs, allowing to pass on the savings

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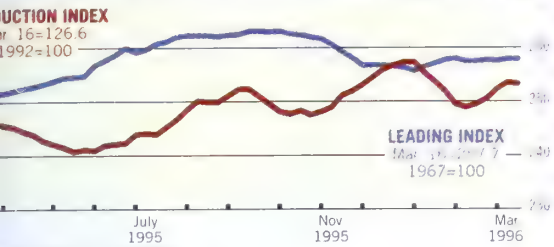
from last week -0.1%
from last year: 3.0%

Change from last week: 0.0%
Change from last year: [illegible]



are 4 week moving averages

uction index edged lower during the week ended Mar. 23. Before on of the four-week moving average, the index dropped sharply to om 126.7, as the strike at General Motors Corp. continued to seasonally adjusted auto and truck output.

ng index was unchanged in the latest week. The unaveraged index 57.8, from 259, pulled down by falling stock prices.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/23) thous. of net tons	2,098	2,042#	2.7
AUTOS (3/23) units	79,763	78,486r#	-47.1
TRUCKS (3/23) units	90,620	99,722r#	-24.7
ELECTRIC POWER (3/23) millions of kilowatt-hrs.	57,876	59,338#	5.1
CRUDE-OIL REFINING (3/23) thous. of bbl./day	13,834	13,677#	3.2
COAL (3/16) thous. of net tons	21,256#	21,102	0.0
PAPERBOARD (3/16) thous. of tons	NA#	890.6	NA
PAPER (3/16) thous. of tons	NA#	832.0	NA
LUMBER (3/16) millions of ft.	447.4#	448.3	0.2
RAIL FREIGHT (3/16) billions of ton-miles	25.3#	25.3	0.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (3/22) S&P 500	650.83	639.59	31.0
ATE BOND YIELD, Aaa (3/22)	7.41%	7.42%	-8.5
RIAL MATERIALS PRICES (3/22)	109.8	108.6	-4.0
SS FAILURES (3/15)	NA	NA	NA
TATE LOANS (3/13) billions	$508.7	$508.7	8.6
SUPPLY, M2 (3/11) billions	$3,684.0	$3,683.4r	2.6
CLAIMS, UNEMPLOYMENT (3/9) thous.	352	363	2.6

Center for International Business Cycle Research (CIBCR), Standard & oody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ompanies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/27) $/troy oz.	400.350	394.900	4.6
STEEL SCRAP (3/26) #1 heavy, $/ton	139.00	139.00	1.1
COPPER (3/23) ¢/lb.	121.0	123.1	-16.7
ALUMINUM (3/23) ¢/lb	76.5	76.0	-12.1
COTTON (3/23) strict low middling 1-1/16 in., ¢/lb.	82.18	80.61	-21.5
OIL (3/26) $/bbl.	22.26	24.34	17.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
L FUNDS (3/26)	5.23%	5.20%	6.06%
RCIAL PAPER (3/27) 3-month	5.37	5.36	6.15
CATES OF DEPOSIT (3/27) 3-month	5.34	5.33	6.15
IORTGAGE (3/22) 30-year	8.05	8.06	8.63
ABLE MORTGAGE (3/22) one-year	5.77	5.82	6.40
3/27)	8.25	8.25	9.00

Federal Reserve, HSH Associates, Bloomberg Financial Markets

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/27)	106.61	106.44	87.05
GERMAN MARK (3/27)	1.49	1.47	1.38
BRITISH POUND (3/27)	1.52	1.54	1.61
FRENCH FRANC (3/27)	5.07	5.05	4.84
ITALIAN LIRA (3/27)	1579.5	1556.5	1706.3
CANADIAN DOLLAR (3/27)	1.36	1.36	1.40
MEXICAN PESO (3/27)[3]	7.540	7.528	6.680

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

a in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense . 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

URVEY

Apr. 1, 10 a.m.EST ▶ The National ion of Purchasing Management's index likely rose to 46.5% in om 45.2% in February. So says the forecast of economists surveyed by rnational, one of The McGraw-Hill ies. The index would still be below mark, indicating the industrial struggling.

UCTION SPENDING

Apr. 1, 10 a.m.EST ▶ Construction g probably rose 0.5% on February. g was up 0.3% in January. The al rise in February is indicated by th's gain in housing starts.

GROSS DOMESTIC PRODUCT

Tuesday, Apr. 2, 8:30 a.m.EST ▶ The MMS forecast expects fourth-quarter real GDP growth to remain at a 0.9% annual rate.

LEADING INDICATORS

Tuesday, Apr. 2, 8:30 a.m.EST ▶ The index of leading indicators likely rebounded 0.9% in February, after January's 0.5% drop.

PERSONAL INCOME

Wednesday, Apr. 3, 8:30 a.m.EST ▶ Personal income probably jumped 0.7% in February, after eking out a 0.1% gain in January. That's suggested by the surge in February payrolls. February consumer spending likely rebounded 0.7%, after slipping 0.5%.

FACTORY INVENTORIES

Wednesday, Apr. 3, 10 a.m.EST ▶ Factory inventories likely fell 0.5% in February, after rising a large 0.7% in January.

EMPLOYMENT

Friday, Apr. 5, 8:30 a.m.EST ▶ The MMS median forecast is that nonfarm payrolls edged up 77,000 in March. That's after the unexpected surge of 705,000 in February. March's unemployment rate likely rose to 5.7%, from 5.5% in February. The Dow Jones industrial average plunged 171 points after the release of the February report. However, because of Good Friday, the stock market will be closed when the March report is released.

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estment Figures of the Week

ARY

arkets seemed poised
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he Dow Jones indus-
e climbed for three
ys, peaking at 5671
—just 12 points be-
ll-time record of 5683
But the financial
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Dow slid 44 points,
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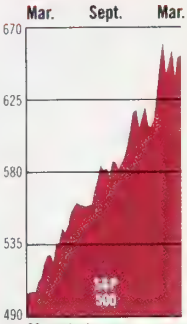
dn't help.

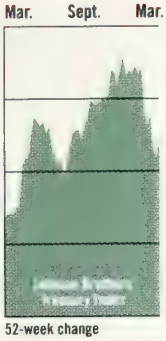
STOCKS



52-week change
+29.0%

1-week change
–0.2%

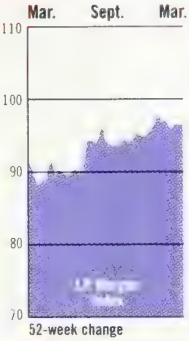
BONDS



52-week change
+5.9%

1-week change
–0.5%

THE DOLLAR



52-week change
+6.0%

1-week change
+0.5%

ET ANALYSIS

KS	Latest	% change Week	% change 52-week
INDUSTRIALS	5626.9	–0.5	35.2
MPANIES (S&P MidCap Index)	229.6	–0.3	26.1
PANIES (Russell 2000)	328.5	0.0	26.4
NIES (Russell 3000)	369.9	–0.2	29.2

STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
NANCIAL TIMES 100)	3672.4	–0.4	16.9
KEI INDEX)	21,330.0	4.3	29.6
SE COMPOSITE)	4987.5	0.5	16.0

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.16%	5.14%	5.80%
30-YEAR TREASURY BOND YIELD	6.68%	6.63%	7.37%
S&P 500 DIVIDEND YIELD	2.15%	2.16%	2.61%
S&P 500 PRICE/EARNINGS RATIO	19.2	19.0	16.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	595.4	592.4	Positive
Stocks above 200-day moving average	69.0%	67.0%	Neutral
Speculative sentiment: Put/call ratio	0.60	0.61 r	Neutral
Insider sentiment: Vickers sell/buy ratio	2.50	2.13	Neutral

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

TH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
	28.4	66.2	NIKE	34.0	128.9	85¼
UM	11.9	38.6	ALCOA	13.7	55.4	63½
LTY APPAREL RETAILERS	10.5	32.3	CHARMING SHOPPES	27.0	–7.0	5
L MERCHANDISE CHAINS	9.6	9.0	KMART	24.6	–31.7	8⅞
BILES	8.8	35.2	CHRYSLER	15.6	59.2	62⅞

TH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
NICATIONS EQUIPMENT	–13.5	37.2	BAY NETWORKS	–39.1	15.8	28⅜
TER SYSTEMS	–13.4	29.8	DIGITAL EQUIPMENT	–31.0	42.2	50⅛
O	–10.7	28.9	PHILIP MORRIS	–11.4	32.8	89
ASTING	–9.5	23.8	TELE-COMMUNICATIONS	–10.6	17.5	19
NDUCTORS	–8.6	7.2	LSI LOGIC	–29.0	–7.7	26⅜

AL FUNDS

MORNINGSTAR INC

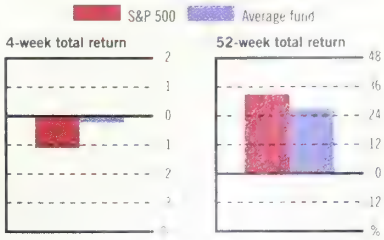
total return	%
S AGGRESSIVE GROWTH	9.4
EL EASTERN EUROPEAN EQUITY	9.0
NE CAPITAL APPRECIATION	8.4

otal return	%
	79.8
O STRATEGIC GOLD	78.3
ECIOUS METALS A	75.4

LAGGARDS

Four-week total return	%
MERRILL LYNCH TECHNOLOGY D	–13.2
FIDELITY SELECT COMPUTERS	–11.0
SELIGMAN COMMUNICATIONS AND INFORM. D	–10.4

52-week total return	%
STEADMAN TECHNOLOGY GROWTH	–20.8
EV MARATHON GREATER INDIA	–19.6
STEADMAN AMERICAN INDUSTRY	–17.0



TIVE PORTFOLIOS

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U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$13,298	$11,890	$11,559	$10,554	$10,401
+0.20%	+0.90%	+1.39%	+0.11%	+1.06%

this page are as of market close Wednesday, Mar. 27, 1996, unless otherwise in-
dustry groups include S&P 500 companies only; performance and share prices are as of market close Mar. 26. Mutual fund returns are as of Mar. 22. Relative portfolios are valued as of Mar. 26. A more detailed explanation of this page is available on request. r=revised

TELECOM REFORM: FINISH THE JOB FAST

The battle in Congress over telecom reform is over, with the Feb. 8 signing of the Telecommunications Act of 1996. But the war over the final shape of telecom reform has just begun.

Exhausted after years of wrangling, Congress, the Clinton Administration, and the warring industry factions agreed to let the Federal Communications Commission decide the most complicated and contentious issues, such as how and when local carriers can offer long-distance service in their regions. The telecom reform bill, a 40,000-word behemoth, refers to the "Commission," meaning the FCC, more than 360 times. The FCC has itself published a list of 100 new regulations it needs to issue over the next 18 months, covering subjects ranging from universal service subsidies to the rules governing attachments to telephone poles.

During this regulatory fast break, the FCC should follow a simple principle: Maximum deregulation, as soon as possible. The key is competition. The FCC should write regulations that will open up markets quickly, and allow competition to handle the problem of keeping the large phone and cable companies in line.

The FCC shouldn't worry too much about making mistakes. That may seem like a heretical notion, but this is one situation where the best is the enemy of the good. Telephone and cable companies have been holding off making critical investment decisions, in part waiting to see what the rules of the are going to be. Rather than duplicating what Congre and holding long, extended hearings, the FCC should pun its decisions as quickly as possible. At the same tim phone and cable companies shouldn't endlessly lobb commission, which could bog down the deregulation pr What's important is to set the ground rules for the telec dustry—right now.

It will be tempting for the FCC's regulators to microm the vast changes in the telecom markets by setting de rules for "fair" competition. But that would be a mistak tions that seemed likely only a few years ago—inter television, movies-on-demand—now seem much furt the future. Other alternatives, such as the Internet, sprung into prominence unexpectedly. Similarly, at the c rate of technological change, there's no way to know wl low-cost universal service to rural areas and poor urban is best provided by copper wires, as it is today, or by form of wireless service. That means the FCC should set simple and transparent a subsidy system as possible, so be adjusted as the technology advances.

It's clear that the FCC has been handed a difficult pr one that Congress was not able to resolve. Here is a c for regulators, so often maligned, to show everyone they can do.

HEALTH CARE IS LOOKING HEALTHIER

For the past few years, the health care industry has been obsessed with squeezing costs without much regard to quality. It has been a race to the bottom, as HMOs and traditional medical insurers, encouraged by cost-conscious employers, have progressively tightened up on access to specialists and new medical treatments, while limiting high-cost items such as maternity hospital stays and long-term psychological care. The result: a substantial decline in health-care inflation, which dropped from an annual rate of 9.6% in 1990 to 3.9% in 1995, but at the cost of a widespread perception among many Americans that the quality of care has declined.

But there may be some relief on the way. Far-sighted companies such as Xerox, PepsiCo, and GTE are keeping closer tabs on the quality of medical care their employees are receiving. Meanwhile, some health-care providers are looking for ways to improve medical care without boosting spending.

Now it's time for the next step—to make quality as important as cost throughout the health-care system. For better or worse, most people still get their medical coverage through their job, so it's the responsibility of Corporate America to become far more vigilant about enforcing standards. Companies that evade this obligation will pay the price, either through a sicker workforce or dissatisfied employees.

At the same time, HMOs and traditional insurance pro must find the fine line between making a profit and car real people. In part, they can accomplish both goals same time by emphasizing preventive programs for c ailments such as asthma and diabetes. Beyond that must aim to meet reasonable standards for care, or will find their legitimacy as gatekeepers ebbing away.

To be sure, there will always be difficult questions o ical ethics. How far should medical insurance go in payi untested—and expensive—treatments? Clearly, healt providers should pay for essential life-saving therapie are proven to work, no matter how costly. The harder come elsewhere—for example, with high-priced new that may be marginally better than a lower-priced alter

The new push for quality also runs the risk of crea two-tiered system, in which some companies are willing for top-notch medical programs for their employees, whil ers pay only for lower-quality care. And there's still t solved problem of providing access to appropriate care f nation's uninsured, now approaching 40 million.

Yet for the first time in many years, it's beginning t as if many Americans have a chance of getting the b both worlds—an affordable health-care system that work

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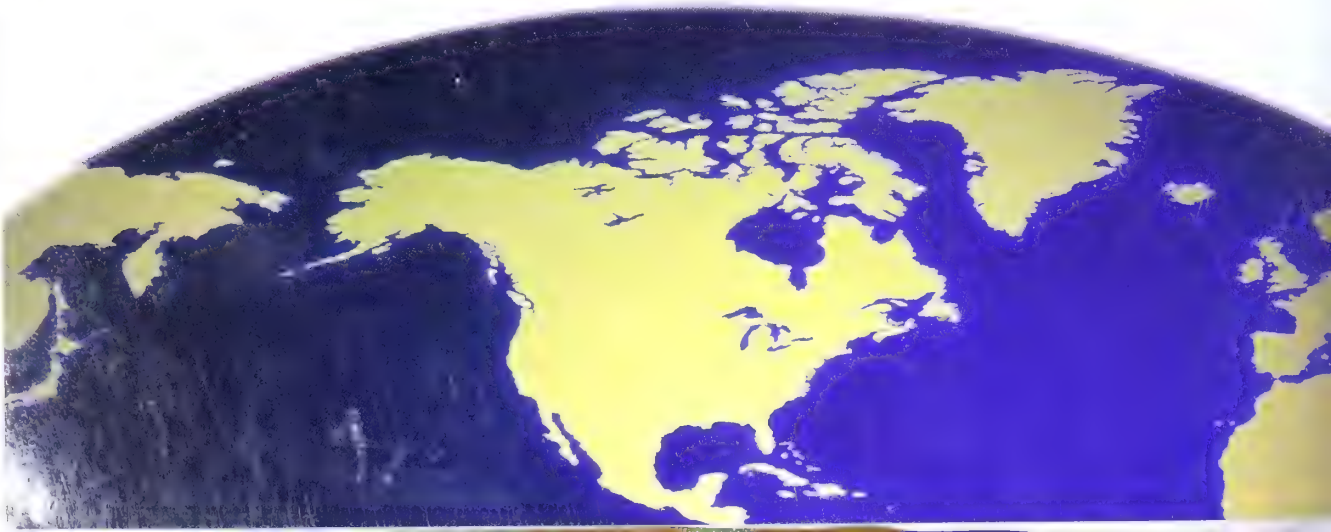

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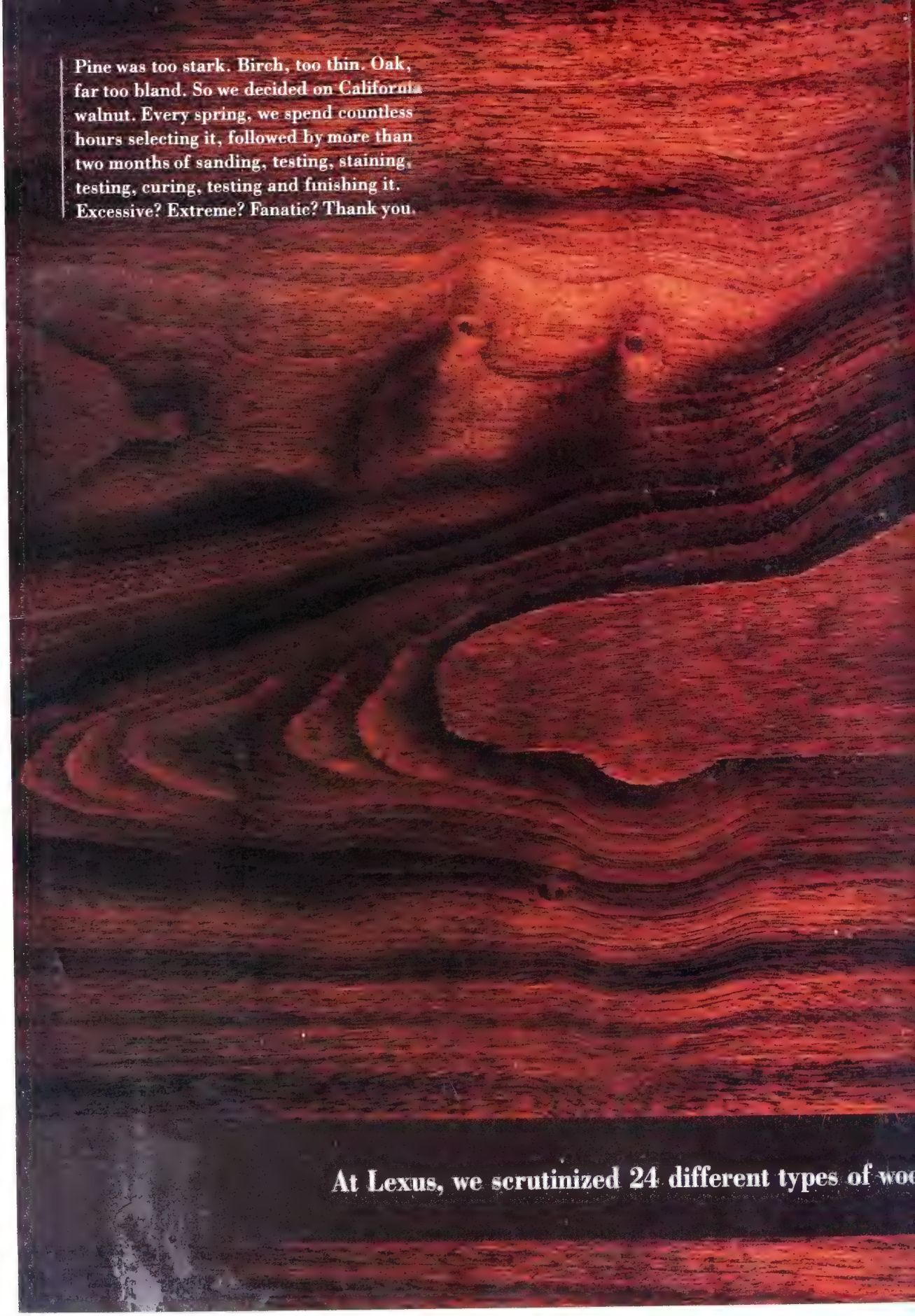
Pine was too stark. Birch, too thin. Oak, far too bland. So we decided on California walnut. Every spring, we spend countless hours selecting it, followed by more than two months of sanding, testing, staining, testing, curing, testing and finishing it. Excessive? Extreme? Fanatic? Thank you.



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1941-1996
Ron Brown's dedication made him a friend of Bill–and business page 38

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APRIL 15, 1996

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Steve Case has turned the cybernaut community into a mass market. His next trick: Keeping AOL on top page 78

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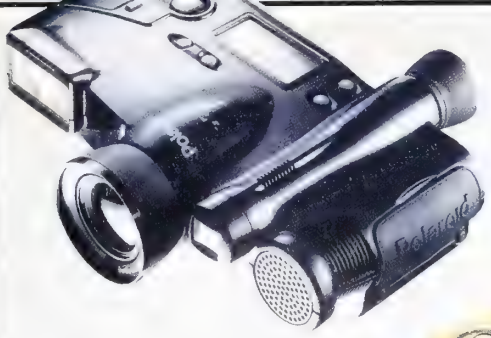

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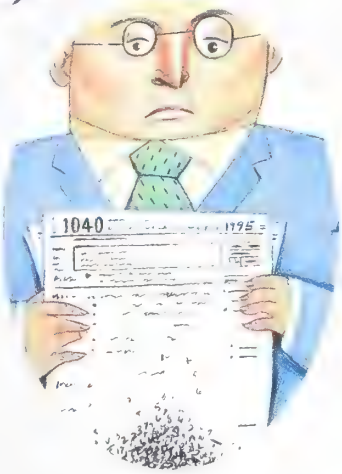

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A lunatic fringe comes to Congress

Up Front

TALK SHOW "In an effort to help the national debt, Tacc Bell is pleased to announce that we have agreed to purchas the Liberty Bell."

—From newspaper ads run by the company on April Fool's Da

EDITED BY LARRY LIGHT

SLUGFESTS

THE FCC HEAD IS WATCHING HIS BACK

NOW IT'S THE FCC'S JOB TO carry out telecom reform. But House Republicans plan to ride the 3-1 Democratic-controlled agency to ensure that it doesn't stray too far from their aims. The recently passed reform law directs the FCC to decide, for instance, how quickly phone companies and cable operators can trample on one another's turf.

Some GOP faithful have become especially concerned since Republican Commissioner Andrew Barrett stepped down in March, giving the Democrats, led by Chairman Reed Hundt, more sway.

HUNDT: *Hunted?*

Representative Jack Fields (R-Tex.), chairman of the House Telecommunications Subcommittee, is putting on the pressure. At a recent hearing, he chastised Hundt for pushing a plan to provide pagers to the homeless. Hundt denies any such plan is in the works. "We know everything you're doi Fields told Hundt.

Once the new law is o ating, Fields intends to o haul the FCC, maybe by gi some of its powers to o agencies. Looking for am nition, the congressman sent out a letter to dozer chief executives of tele companies, asking them t cretly critique the FCC. have reformed the policy, now it's time to reform regulator," Fields wrote CEOs. *Mark Le*

PAPER PLAYS

BREAKING UP ISN'T HARD TO DO

GETTY PETROLEUM WILL BE splitting in two, sort of. It's doing a tax-free spin-off in a clever way that it hopes will meet IRS standards for such deals. Thanks to wily financial engineering, there will be a separate real-estate company to own the gas stations—and lease them back to Getty's gasoline marketing business.

To win the Internal Revenue Service's O.K., a spin-off's pieces must be free-standing units, such as in ITT's recent three-way breakup. Robert Willens, Lehman Brothers' tax expert, says Getty's plan should satisfy the IRS since it results in stand-alone entities. But he adds: "This is pushing the envelope, for sure."

Why? The duo's interests will continue to interlock to a degree that's rare in a spin-off. CEO Leo Liebowitz will head both companies for an unspecified period. And the two bodies plan to share administrative functions and some board members, at least for a while. But mainly, Getty Realty's principal business will remain leasing 1,100 stations to Getty Petroleum. (The realty company has sidelines: home heating oil delivery and 200 nongas retail outlets, such as donut shops.)

The maneuver is tax-free to investors because they will have shares in both companies, and won't receive a taxable cash payment. The aim is to boost the stocks' overall value by giving investors two pure plays: the real-estate operation's steadier income (now 10% of Getty's revenue) is separate from the marketing unit's more volatile one. Biggest likely winner: CEO Liebowitz, who owns 20% of Getty. □

MAD AVE

PEPSI'S WILD BLUE YONDER

PEPSICO HAS SIGNED UP THE Concorde to hype a switch from its traditional red, white, and blue colors to what it calls electric blue. But this may be better marketing than aerodynamics. Pepsi painted an Air France Concorde blue for an 8-day, 10-city promotional tour of Europe and the Mideast, where the more distinctive electric look will be rolled out first. The new color's North

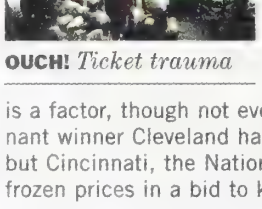
CONCORDE: *Getting a pa*

American debut is unc

The paint problem: A hull brings greater air tion, forcing the plane t lower (45,000 feet) and sl (Mach 1.8). With its u white, the aircraft dissip heat efficiently as it cro the Atlantic doing Mach 60,000 feet. (The makeo cost: $300,000 to paint it then paint it back.)

A portent? Changing porate icons can be tri "Confusing the customers risk," says Kevin McGurk nior consultant at Lond Identica Partnership. Ex ple: the New Coke deb Unconcerned, Pepsi is up about the painted Conc and the new corporate c Yann Tardif, Pepsi's mar ing director for Western rope, says Pepsi blue ha apt canvas in the Conco which "changed the way ple looked at aviation years ago." *Heidi Da*

THE LIST **BALLPARK FIGURES**



OUCH! *Ticket trauma*

Hurt by slumping attendance last season after the players' strike, Major League baseball is hiking the average ticket price 6.2%. To appease miffed fans, it rose only 1% in 1995. One reason for the boosts this year: Teams expect an attendance turnaround and fatter gate receipts. Club performance is a factor, though not everywhere: American League pennant winner Cleveland has the biggest percentage increase; but Cincinnati, the National League Central champ, has frozen prices in a bid to keep its ballpark affordable.

MAJOR LEAGUE TICKET PRICES

	1996 AVERAGE	TICKET INCREASE		1996 AVERAGE	TICKET INCREASE
BOSTON RED SOX	$15.43	14.2%	CINCINNATI REDS	$7.95	0.0%
NEW YORK YANKEES	14.58	3.0	CALIFORNIA ANGELS	8.44	4.7
CLEVELAND INDIANS	14.52	20.4	MONTREAL EXPOS	9.07	11.2
CHICAGO WHITE SOX	14.11	9.1	SAN DIEGO PADRES	9.88	8.3

DATA TEAM MARKETING REPORT

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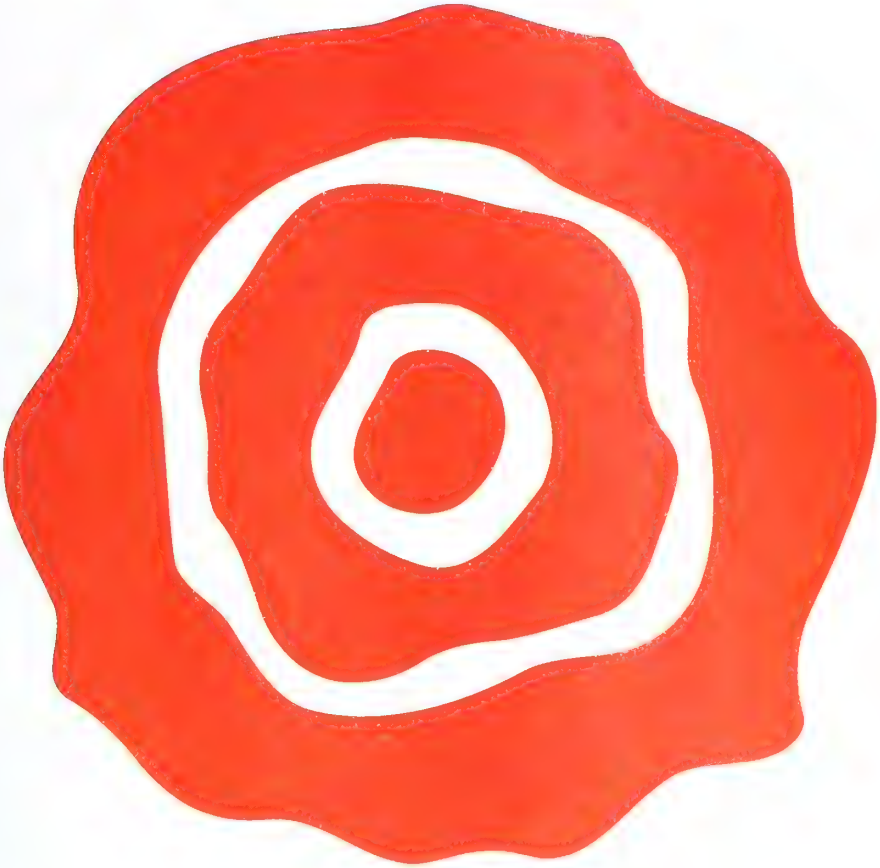

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The Bank of Tokyo and The Mitsubishi Bank.
Now one new bank, The Bank of Tokyo-Mitsubishi.

The Bank of Tokyo-Mitsubishi, Ltd.

Up Front

DAMAGES: *Victims can get millions*

SAFETY PATROL

CAUTION: FALLING INVENTORY

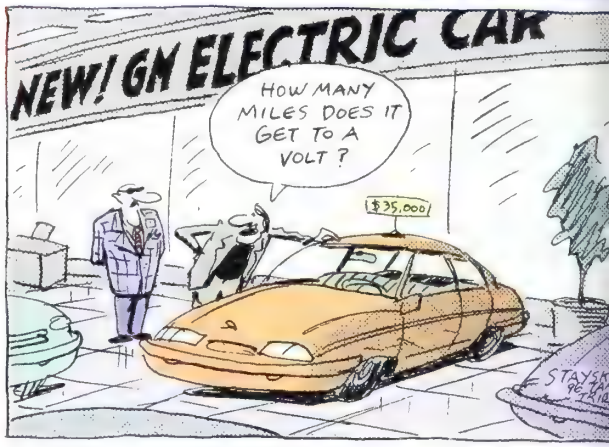
SHOPPING HARDLY SEEMS A hazardous undertaking. But lately, numerous shoppers have been hurt by falling goods—and some even killed.

At Wal-Mart's Westminster (Colo.) outlet, a 30-pound box fell seven feet off a highly stacked cart onto a customer's back. Saying she now can't do her job as a nurse, the shopper recently got a $435,000 court award. And last year, a mishap at Wal-Mart's nearby Littleton (Colo.) store cost the largest U.S. retailer $3.3 million. The victim, hit by two 40-pound ice drills toppling off a shelf, claims mild brain damage. Wal-Mart, saying it checks shelves to minimize accidents, is appealing both judgments.

Wal-Mart's insurer counts some 25,000 complaints of falling-goods injuries in the past five years, involving everything from ironing boards to barbecue grills. The retailer puts the number at half that and says most accidents aren't serious—like toilet paper rolls bumping noses. Wal-Mart is not alone. In 1994, at HomeBase's Lynnwood (Wash.) facility, a falling load of ceramic tiles killed a woman. HomeBase, stressing a concern for safety, calls the incident a "fluke."

Why the hazard? Attorney Jeffrey Hyman of Denver's Haligman & Lottner, which brought the two Colorado cases against Wal-Mart, blames "merchandising of the 1990s, trying to use every conceivable inch to display product." *Amanda Agee*

DRAWN & QUARTERED

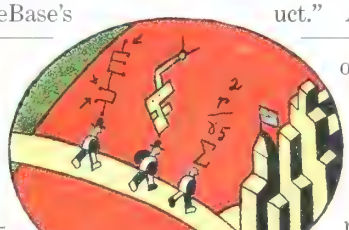


MELTING POT

TEEMING HORDES OF INVENTORS

IN THE DEBATES OVER LOWER immigration levels, lawmakers question whether newcomers are taking away American jobs. But immigration proponents on Capitol Hill just got some fresh ammo: a study showing that newcomers get more than their share of patents—which presumably generate jobs.

The study, by the pro-immigration Alexis de Tocqueville Society in Arlington, Va., says that immigrants were issued one-quarter of U.S. patents granted between 1988 and 1994. Because they make up only 8.7% of the population, that contribution is considerable.



Take Kyong Park, who came to the U.S. from Korea in 1969 to study physics at Southern Illinois University. Now he's a vice-president at Kavlico, a Moorpark (Calif.) maker of auto pollution control devices. The 24 patents he holds help support 80% of the company's business.

Immigration opponents don't attack de Tocqueville's methodology, but they insist that newcomers generally have less education and lower skills than the native-born. K.C. McAlpin, deputy director of the Federation for American Immigration Reform says it's just not true "that everyone coming to America is another Einstein." *Catherine Yang*

PATENT PERVERSITY

A HI-FI BLAST FROM THE PAST

B&W LOUDSPEAKERS IS case study in the perils patents. The British hi-fi c fit can't get a patent for new high-end stereo spe ers because someone e got there first—more tha half-century ago.

The company got the l news recently when it w to the British Patent Of to seek protection for costly ($38,000 a pair) ult hi-fi speakers. B&W engine shaped them like the coch or inner ear, saying t helped the sound. They sp three years and $400,000 p fecting the sleek, eye-catching spiral. Then the company discovered that the idea had been patented way back in the 1930s by a U.S. company called STC, believed to be defunct now.

The patent has long since expired. But B&W product manager Ken Weller says he isn't worr about knockoffs: "It wo be very difficult to cop The speakers—named N tilus, because the widen spiral resembles a nauti shell—are now B&W's s product, with nearly 100 s sold in their first year on market. *Ruth Go*

NAUT '30s

THE BIG PICTURE

SPENDING PRIORITIES

GLOBAL GOVERNMENT SPENDING
PERCENTAGE OF 1995 GDP

For non-Western nations, defense spending is a larger share of the economy than the U.S.'s 3.8%. Washington's 0.47% for education is relatively puny. Health care? At 3.7%, the U.S. is on par with the others.

FOOTNOTE Annual averaged pro salary of top NCAA recruit in 1994: $6 million; 1995 (post NBA rookie salary cap): $2.8 millio

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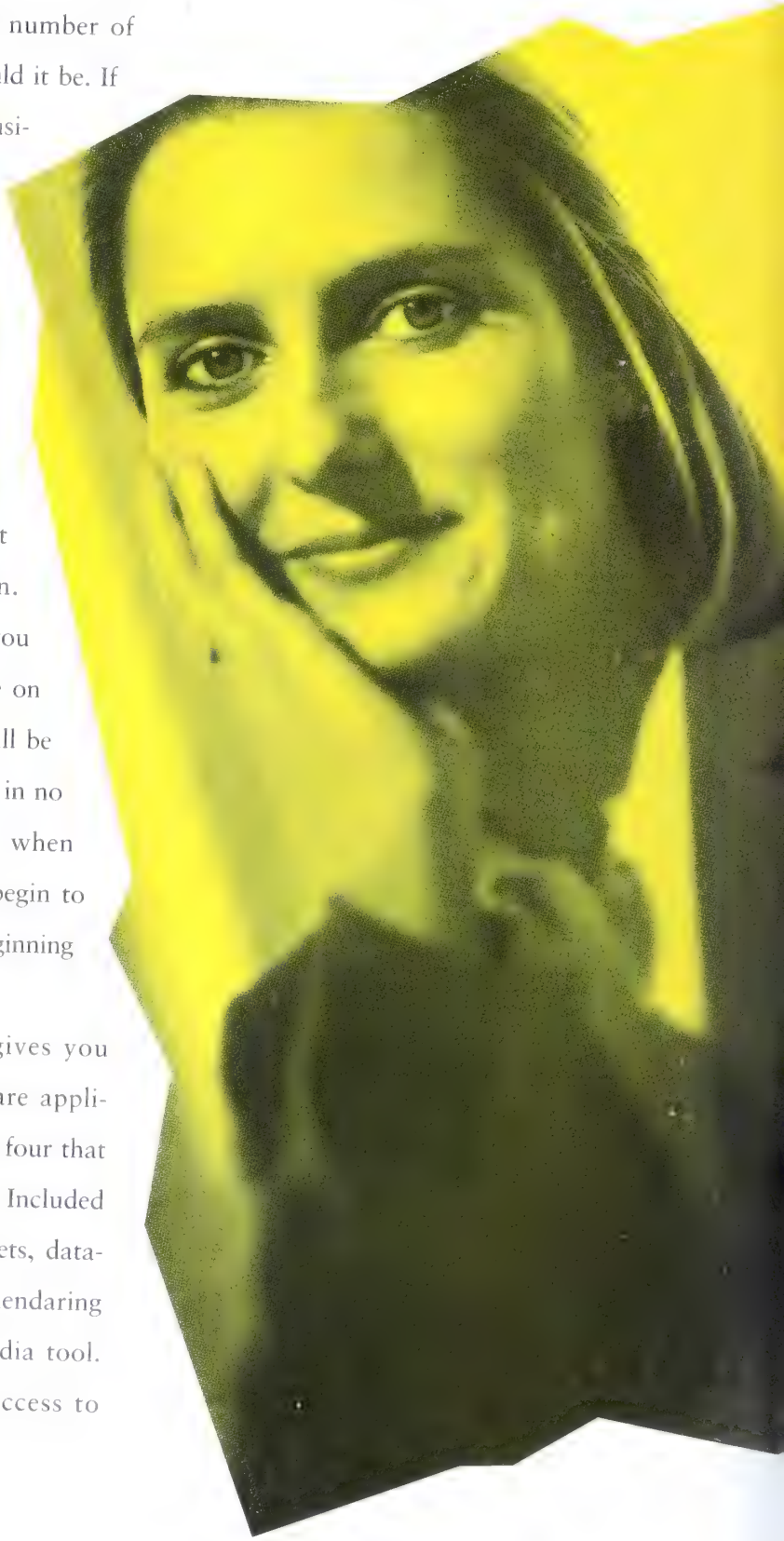

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Editor's Memo

A REMARKABLE RECORD

Hollywood has its Oscars. Newspapers have their Pulitzers. In the world of magazines, the top prizes for outstanding journalism are the National Magazine Awards. This year, we're delighted to report that BUSINESS WEEK has been named a finalist in two categories: reporting and general excellence for magazines with a circulation of more than 1 million.

In reporting, we were nominated for "Blind Ambition" (Oct. 23, 1995), an investigative report of wrongdoing at Bausch & Lomb Inc. written by Mark Maremont, our bureau chief in Boston. Two months after this cover story appeared, CEO Daniel E. Gill announced to the B&L board of directors that he would take early retirement.

In general excellence, we were cited for three issues: "Blind Ambition," "The Bankers Trust Tapes," and "The Software Revolution."

The story on Bankers Trust Co. (Oct. 16, 1995) detailed the inner workings of a group at BT that sold complex financial instruments known as derivatives to corporate clients, including Procter & Gamble Co. After P&G sued BT for fraud, BUSINESS WEEK was prevented from publishing the story three weeks by a fe[deral] judge. Ultimate[ly], in a major First Amendment case, a federal appeals cour[t] completely vindicate[d] the magazine, declar[ing] the judge's original [or]der unconstitutional.

In "The Software Revolution" (Dec. 4, 1995), BUSINESS WEE[K] analyzed the profou[nd] changes caused by t[he] Internet—a special r[e]port that offered gre[at] insight to our many readers.

These two nomina[tions] extend our remarkable record of consistency in the N[a]tional Magazine Awards. We have be[en] a finalist in the gene[r]al-excellence categor[y] times in the past 5 years and 7 times in the past 10. We last won the prize in 199[…] Few other magazine[s] match our record of achievement—and n[o] other business magazine comes close.

We're proud of ou[r] record of journalisti[c] excellence. More tha[n] anything else, it is t[es]tament to our overri[d]ing goal: providing the highest-qu[al]ity coverage to you, our readers.

Stephen B. Shep[ard]

Editor-in-C[hief]

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IN PRAISE OF JULIAN ROBERTSON

We the 47 undersigned—longtime friends, present and former associates, and limited partners of Tiger Management—hereby attest that Julian Robertson is a wonderful human being, whose integrity, caring, and generosity have enriched our lives ("Fall of the wizard," Cover Story, Apr. 1). The investment record of Tiger, which shows a compound annual gain of 30% for 15 years, speaks for itself. We refute as false the impression conveyed by this article. It is an unfair, inaccurate portrayal of a widely revered individual who continues to be extraordinarily successful.

Anthony J. Duke
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Sir John Templeton
Nassau, Bahamas

Editor's note: This letter was signed by 41 other people.

WHAT'S AT STAKE IN THE TAIWAN STRAIT

The potential repercussions of a Chinese offensive are more far-reaching than your report suggests ("Taiwan under siege," (International Business, Mar. 25). The booming Asia Pacific region could be crippled by a China willing to use her military might to coerce smaller neighbors to abide by her will. Foreign investments earmarked for the region could flee for safer havens elsewhere, and the Asian economic miracle could vanish in a few months.

If China-Taiwan tensions continue to escalate, hardliners in the Chinese military will inevitably gain greater political power, which will in turn result in a more insular and antagonistic Chinese leadership.

The U.S. has an important role to play in diffusing this potential time bomb—delicately balancing diplomacy with economic sanctions—before the structure of political power in China is irreparably changed. If not, the Asia Pacific as we know it today will be a very different place.

Robin Lim
New York

CORRECTIONS & CLARIFICATIONS

In "Back in business: The vacuum tube" (Up Front, Apr. 1), the tube being produced by Westrex Corp. should have been identified as the Western Electric 300B.

REAL ESTATE: ARE BANKS UNFAIR TO BUSINESS?

Thank you for the constructive article on real estate ownership ("A homecoming for home buying," Economics, Mar. 25). The article, however, ignores one particular aspect of the trade. If, for instance, one owns a 5,000-square-foot house worth $500,000 and applies for a $150,000 mortgage loan, the banks will eagerly accommodate the homeowner and charge him a fixed interest rate of 7.25% amortized over 30 years.

However, if the same property is located in a commercial section of town, offering eight office suites to small businessmen and women, the owner will have a hard time finding a lender on the same terms and conditions. At best, the owner of the commercial building will have to pay a fixed interest rate of somewhere between 9.5% to 10.25% amortized over 15 years, while the prime rate in both situations is 6%.

By discriminating against commercial buildings or income-producing properties, banks are suppressing economic growth, the very thing that has sustained the banking business through the years.

William F. VanGelder
Santa Maria, Calif.

EVEN ILLEGAL IMMIGRANTS DESERVE PROTECTION AT WORK

Employers have no reason to be baffled by the National Labor Relations Board's recent decision concerning unfair labor practices where the employees are undocumented immigrants ("You can't fire me—um, or hire me," Up Front, Mar. 25). They need only observe the long-standing NLRB and Supreme Court case law that all workers are entitled to the protections of labor law, regardless of their immigration status. Otherwise, cut-rate employers would try to beat competitors by using workers who have no recourse when they are not paid minimum wage or are fired for protesting such abuses.

The employer in this case can have little to complain about, since it was undisputed that he knew from the the employees started work that lacked legal papers. It was only v they supported the union that he cided to fire them. According to story, the employer did not fire t for lacking work authorization but fo "accident with a delivery truck." Board after a hearing found that would not have been fired but for t activities in support of the union.

The AFL-CIO will continue to de the rights of all workers to the pro tions of our labor laws, regardles their immigration status. Second-c status for one group is not in the in est of any of our members.

Jonathan P. F
General Counsel, AFI
Washin

THE PROMISE (AND THREAT) OF THE WEB

Donald H. Jones and Industry are facing competition from the lik Thomas Publishing Co., which offers vertisers in the Thomas Register pages on its World Wide Web ser ("This is my last startup. Honest," ple, Mar. 25.). It obviously sees the as a threat to its business.

But this misses the lesson of m history—that, as with print, niche cialization is the way to go. Site specific markets such as Water On devoted to the water and wastew industry, will become the media (s speak) for industries too small to port daily or weekly media.

Frank Straz
Northridge, C

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Dianne Hurley and Mary Niles of the Circle K Corporation.

/hen you're the largest independent etailer of gasoline in the U.S., with ver 2500 stores and annual sales opping $3.5 billion, one small change n fuel prices can have a big impact n the bottom line. That's why ircle K Corporation's Petroleum roducts and Services Division urns to the SAS System.

Its analytical capabilities, ease f use, and ability to handle large mounts of data put it above and eyond other software," says Mary Niles, Petroleum Systems Analyst or the division.

Fitting Circle K's Information Needs to the Letter

Circle K's business analysts say SAS software has meant tremendous ime savings in day-to-day business asks. According to Dianne Hurley, Director of Petroleum Pricing and Ordering for the division, "SAS software lets us forge forward with our data, enabling us to create pricing models, volume predictors, and budgets in record time. This, in urn, lets us make decisions much more quickly."

Data regarding gasoline pricing s gathered into GMARD—short for Gasoline Marketing Analysis Relational Database—a system built with SAS software. From there, the data is transformed into meaningful business information for executives throughout the Petroleum Products and Services Division. Niles says, "The software lets us easily add other applications and functionality." Now in development is a SAS-based EIS for non-technical executives. "It's a big goal of ours to provide executive information systems that allow people at the top to quickly and easily view data and make good business decisions. To them, a picture is worth a thousand words," adds Hurley.

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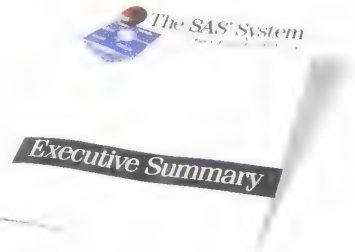

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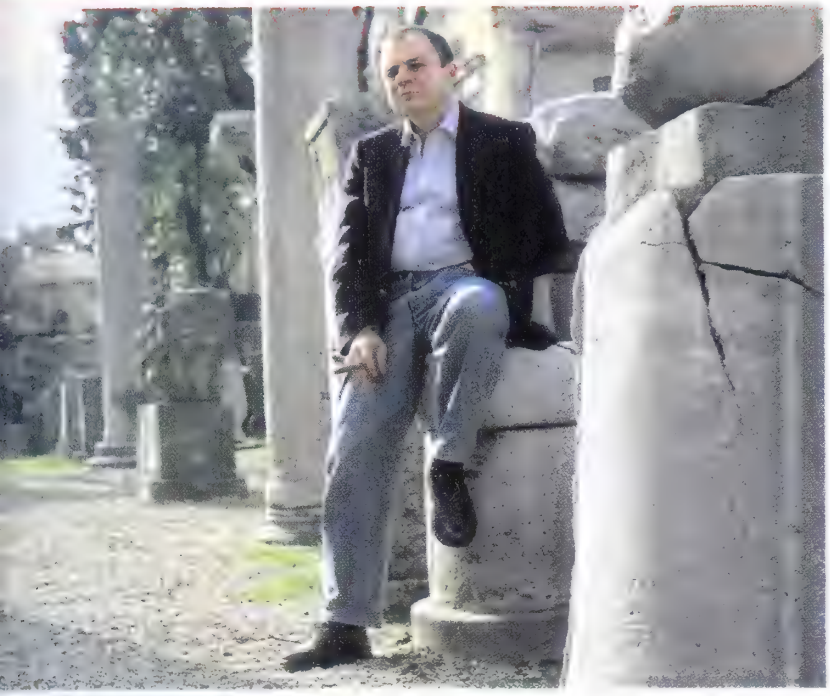

INFORMER "Getting a piece out of the country is the easy part," says ex-smuggler Gulener, at the Archeological Museum in Istanbul

TED BY SANDRA DALLAS

SMUGGLER'S EN OF ANTIQUITIES

During a 30-year career in the underground antiquities trade, Sami Guneri Gulener claims to slipped hundreds of priceless arti- through Turkey's porous borders. n pass a 10-ton statue through the of a needle," he boasts over cigars whiskey at an Istanbul café.

ow, although he denies having any ets about his job as a trans- er, or "jockey," of stolen and il- lly excavated artifacts, Gulener decided to use his insider's vledge to help Turkish authori- crack down on a trade that is stripping his country of much of ultural heritage. Objects worth stimated $200 million disappear Turkey each year, plucked from burial mounds and ancient cities natolia for sale to First World ctors. Professing an interest in ing the outflow, dapper 47-year-old Gulener provides Turkey's Culture Ministry with smugglers' names and other information. "I'm not ashamed of anything I've done," he says. "But I'm a patriot. The bureaucrats should know how easy [smuggling] has become before it's too late and everything disappears." Gulener says he receives no pay for the information.

Scholars and government officials need all the help they can get. Illegal exportation of Turkish artifacts dates at least to the mid-19th century, when European archaeology buffs looted priceless monuments such as the Hellenistic Altar of Zeus from Pergamon and Priam's Treasure from ancient Troy, without Ottoman permission. But experts say the trade has mushroomed since the late 1960s, when Mafia-style outfits sprang up in Istanbul and Germany to mastermind the contraband pipeline.

ENDLESS SUPPLY. "It's all about supply and demand," says Ozgen Acar, a columnist with the daily newspaper *Cumhuriyet*, who began crusading against the antiquities trade 25 years ago. "Turks realized about that time that they could buy an ancient piece for a few thousand dollars from the farmer who found it, and sell it in New York or Munich for $500,000," he says. A turn-of-the-century Turkish law requires that all antiquities be registered with the Culture Ministry within a month of their discovery, and nobody, not even the state, can legally sell them abroad. That means that at some point along the way, most Turkish antiquities in foreign collections were acquired illegally.

Before the international smuggling rings took over, the antiquities trade was centered in Istanbul's labyrinthine Grand Bazaar where, over glasses of tea, shops peddled all kinds of artifacts picked up from thieves and grave robbers. Now, experts on both sides of the law say, some 85% of this booty passes through neighboring Bulgaria, several hours' drive north from Istanbul. A few thousand dollars' worth of *baksheesh*, or gratuity, is usually all it takes to persuade customs officials at the frontier to look the other way. That makes the Turkey-Bulgaria corridor one of Europe's major gateways for narcotics, stolen cars, and guns, as well as antiquities.

Lack of a cultural-protection pact between the two countries, such as the one Turkey has with Greece, makes things easy for antiquities

Since the late '60s, Mafia-style outfits in Istanbul and Germany have dominated the illegal trade in artifacts

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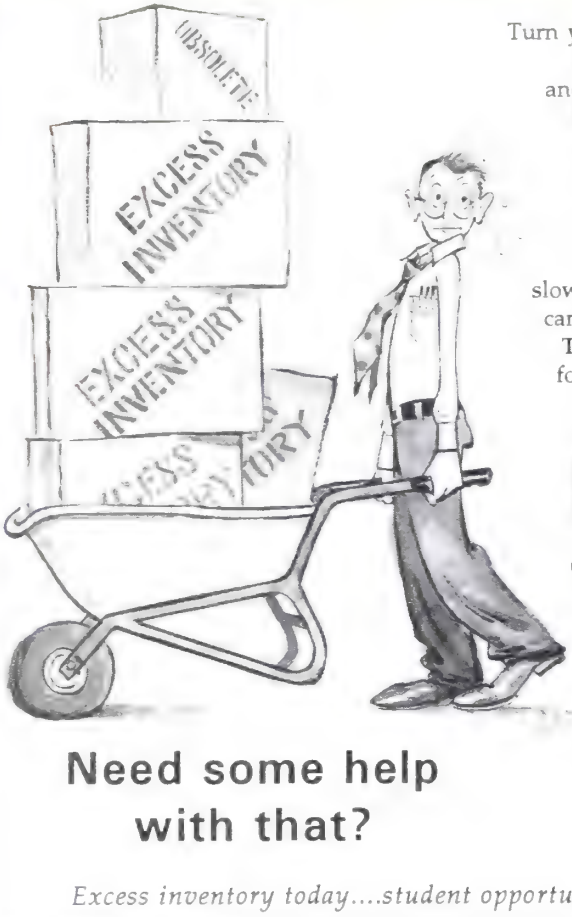

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traders. Once the items are safely acros the Bulgarian border, they can be ex ported legally. They are usually taken t the Sofia Airport, then flown to deal ers in Western Europe.

Home at various periods to mor than 30 civilizations, Turkey provide smugglers with a practically endles supply of objects: Lycian coins, Hel lenistic statues, Byzantine silver, eve elaborately carved mosque doors. An with more ancient Greek sites tha Greece and more Roman cities tha Italy, Turkey has in recent decades sur passed both countries as the larges source of classical artifacts. Guard- ing ancient sites is practically impossible, since many are uncharted and others are too remote or too vast to protect.

"CULTURED." "Get- ting a piece out of the country is the easy part," says Gu- lener, who claims to have jockeyed out of Turkey several artifacts now displayed in European

For a "gratuity," customs officials on the Bulgarian border will look the other way

and American museums. The adven of Mafia-like smuggling rings, whic government officials say are controlle by three Istanbul-based family groups has made selling to international buyer easier, too. The rings have the "ability to market the items through their in ternational connections," including pos European art galleries and jet-settin collectors, says Gulener, who hesitate to call the rings Mafias. "That wor conjures images of uneducated gang sters. But these guys are really ver cultured, and they tend to have a bet ter eye for quality than most schol ars," Gulener says. He claims th groups rarely resort to violence, eve against informers such as himself. " don't think they're going to break m legs," he says, laughing.

Turkish officials are not so blasé "We're losing the battle," says Kutla Celik, head of the Istanbul Polic Dept.'s financial-crimes unit, whic oversees an antiquities force of just 1 officers. "Given the size of our grou

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our small budget, we're doing well. we're still catching only about 5% ne antiquities." Things are changing ttle, thanks to tips from insiders n as Gulener. The force has netted e than 1,500 pieces worth nearly million in the last three months e, Celik says, proudly showing pho- of recovered artifacts stored in the city's new police headquarters. The

TORSO TIFF: *Did New York collectors buy this piece of "Weary Hercules" from crooks?*

cued patrimony is turned over to e-owned museums.

Celik is pushing for an expansion of antiquities force. He also wants the ernment to amend laws that essen- y require police to catch antiquities ggglers red-handed in order to pros- te them. "When we catch them with objects, all they've got to do is say just obtained the item the day be- and were about to register it with Culture Ministry. It's difficult to ve them wrong. And we never real- get close to catching the ringleaders he act," he says.

TER BEWARE. The government may e better luck targeting the buyers. ned with a $50 million government chest, Engin Ozgen, the Culture istry's director-general of monuments museums, is waging battle in over- s courts and law offices against for- n buyers of antiquities that Turkey ards as stolen or illegally excavated. making some high-profile recoveries, hope to make collectors think twice

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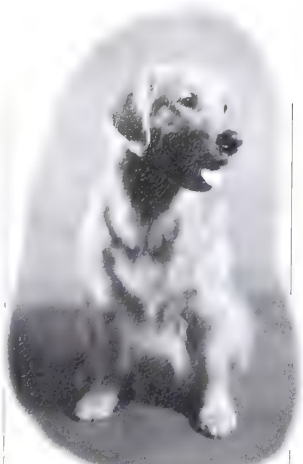

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about buying Turkish artifacts wit
questionable background," says Ozg

In a case that has become a *co*
célèbre in Turkey, Ozgen and comp
have set their sights on a sculpt
fragment jointly owned by New Y
collectors Shelby White and Leon L
and the Museum of Fine Arts in Bos
The marble fragment is the top half
so-called "Weary Hercules" statue, p
ably a 2nd century A. D. Roman cop
a bronze original by the Greek ma
sculptor Lysippus. The bottom hal
displayed in the main lobby of the
talya museum in southern Turkey.

COURT CHASE. Turkey claims smugg
got hold of the torso fragment afte
was unearthed in 1980 at an excava
in the ancient city of Perge, 13 m
northeast of Antalya. Then the p
probably was whisked to Istanbul
jockeyed via Bulgaria to a dealer
Western Europe. For their part, W
and Levy contend they purchased i

Istanbul police, with just 15 officers on th smuggling beat, say they're overwhelmed

the early 1980s from a well-known d
er in Switzerland. "We have no i
how it came out of [Turkey]," L
says. "We bought it on the advice
a very respected curator." Turke
lawyers have prepared a lawsuit t
could eventually force the Americans
give up the statue. Boston museum
ficials, who say no such lawsuit has b
filed, claim the Turkish government
never presented convincing evide
that the fragment was discovered
Perge or that it was smuggled out
the country.

Gulener contends Turkey would
better off spending its money in
marketplace rather than the courtroo
"If the government really wants to s
this trade, they've got to give the m
seums more money to compete [w
international buyers]," he says. Gule
thinks the laws should be changed to
low more private collecting in Turk
And a cultural agreement with Bulg
ia would help, he adds. Until then, sa
Gulener with a shrug, "there will
ways be buyers." And where there a
buyers, there will always be smuggle

JOHN DOX

Doxey writes for BUSINESS WE
from Istanb

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BOOK BRIEFS

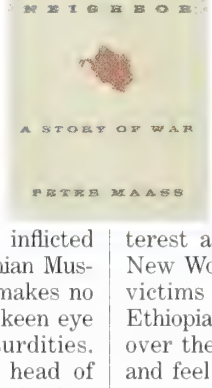
LOVE THY NEIGHBOR
A Story of War
By Peter Maass
Knopf • 305pp • $25

BOSNIA'S HORROR

Near the beginning of *Love Thy Neighbor*, Peter Maass vividly describes the centuries-old Balkan impaling technique, including the bonus paid to the executioner if the writhing victim remains alive for a long time.

In Maass's gripping account of the war in Bosnia, that scene serves at once as a historical reminder of the deep roots of the Bosnian blood feud and as an early warning of what is to follow: Maass's personal tour through the horror show that was Bosnia. As the U.S.-brokered Dayton peace accord shows signs of unraveling, the ethnic players in the former Yugoslavia may well pick up where they left off, making this well-written book even more disquieting, and more timely.

Maass, a *Washington Post* reporter, covered Bosnia as a first-time war correspondent during 1992 and 1993. Others broke the news about ethnic cleansing and mass rape. Nor is deep analysis his strong suit here: Flaws and naivete plague Maass's reading on such matters as U.S. and European policy toward Bosnia. But the author more than overcomes such shortcomings with sensitive writing that brings a reader face-to-face with a genocidal war.



Documenting the horrors that Serbia's military machine inflicted as it tried to eradicate the Bosnian Muslims and their history, Maass makes no pretense of neutrality. And his keen eye catches plenty of cruel absurdities. While diplomats dawdle, the head of U.N. peacekeepers in Bosnia further delays a Western response to S atrocities with suggestions that Bosn have been shelling their own peopl win sympathy. Later, he repeats false assertion during U.S. speak tours partly financed with Serb mo

The reader can't help but empat with Maass as he is pulled the moral quagmire. While iting Muslims held in S concentration camps, Ma understands that his prese is "just another form of ture" for prisoners who c be killed for merely liste to a reporter's question.

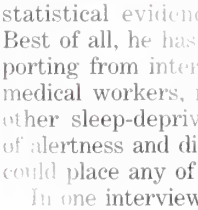
Bosnia produces w Maass calls "war porn" at first gripped America's terest and then grew tiresome as New World Order turned into a blu victims from Bosnia, Rwanda, Ethiopia. Those who have become ja over these outrages can read this b and feel an all-too-fresh anguish.

BY BILL JAVE

SLEEP THIEVES
An Eye-opening Exploration Into the Science & Mysteries of Sleep
By Stanley Coren
Free Press • 304pp • $24

SHORT ON ZZZs

Lack of sleep causes more than drowsiness at morning meetings. As University of British Columbia psychology professor Stanley Coren details in *Sleep Thieves*, the condition causes thousands of accidents each year on highways, in hospitals, and on the factory floor. Indeed, sleep deprivation played a role in the nuclear accident at Chernobyl, the Exxon Valdez oil spill, and the space shuttle Challenger tragedy.



Coren condenses a large body of scientific material on the pathology of sleeplessness and documents its high social costs. He presents technical and statistical evidence in an easy style. Best of all, he has woven in superb reporting from interviews with truckers, medical workers, night watchmen, and other sleep-deprived folks whose lack of alertness and distorted mental states could place any of us in danger.

In one interview, several young medical residents convey a sullen antipathy toward their patients that dramatizes the author's description of the pathology of sleep deprivation. After 18-plus hours on the job, one exhausted doctor reports that he is more interested in a place to take a nap than in his patients. "You start to wish that the patient will die so that the bed will clear," he says. "No you don't," one of his colleagues quickly protests. "Too much paperwork!"

Coren dwells a bit too much on what sleep is and why we need it. And having diagnosed the social problem, he is weak on prescriptions. But these are minor flaws in an important study of a vastly underreported problem.

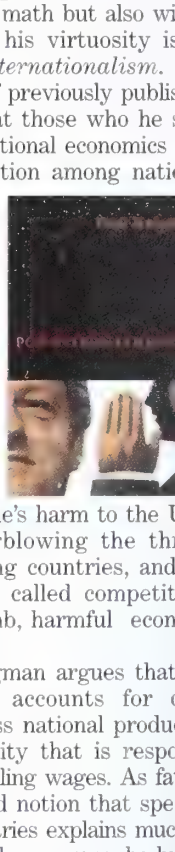
BY NEIL GROSS

POP INTERNATIONALISM
By Paul Krugman
MIT Press • 221pp • $22.50

NOT SO DISMAL

Once upon a time, economists knew how to write. The prose of Adam Smith, David Ricardo, and Karl Marx positively shimmers, especially next to the dense equations favored by current practitioners of the dismal science. Indeed, it would shock many to learn that one of the greatest polemics of the 20th century, *The Economic Consequences of the Peace*, a denunciation of the treaty ending World War I, was written by an economist, John Maynard Keynes.

But that was more than 70 years ago. So thank goodness for Paul Krugman. The reigning Young Turk of econo not only knows his math but also wi a mean pen. And his virtuosity is display in *Pop Internationalism*. book, a collection of previously publis essays, takes aim at those who he write about international economics "'win-lose' competition among nati but refer to "little or nothing of what economists think they know about international trade."



Big names such as Lester Thurow, Robert Reich, and Clyde Prestowitz come in for tough blows. Krugman rails against them for overstating trade's harm to the U economy, for overblowing the thr posed by developing countries, and conjuring a bogey called competit ness to justify dumb, harmful econ ic programs.

Ultimately, Krugman argues that not trade—which accounts for around 10% of gross national produ but poor productivity that is respo ble for America's falling wages. As fa of the now accepted notion that spe ization in key industries explains muc modern international commerce, he bu a convincing case. These essays may repetitive at times, but they easily the talk-show pabulum that so o passes for economic analysis these d

BY KEVIN KE

1995 Deals of the Year*

bt

Raytheon
$1.125 billion

Petronas
$1 billion

Cox Communications
$950 million

veraged
nance

Luxottica
$1.55 billion

uity

DuPont
$8.8 billion

ENI, S.p.A.
$3.95 billion

Nordbanken
$1 billion

LUKoil
$321 million

oject
nance

California Energy
$675 million

North Star BHP Steel
$350 million

&A

Wells Fargo / First Interstate
$11.6 billion

Time Warner / Turner
$9.3 billion

Seagram / MCA
$5.7 billion

IBM / Lotus
$3.5 billion

Union Pacific / Chicago and North Western
$2.3 billion

*A partial list of transactions named by
or more of the following publications: *Corporate
ce, Euromoney, Institutional Investor, International
cing Review, Investment Dealers' Digest* and others.

You Don't Scoop Up Fifteen Awards With Plain Vanilla.

At CS First Boston, our innovative thinking leads to investment banking transactions that win awards. More importantly, it earns the respect of our clients.

CS FIRST BOSTON

Jan Deen was captivated by a bicycle more mini than a Mini.

Jan Deen of Union, a famous name in bicycles, had seen folding bicycles before, in countries all over the world. I never anything as revolutionary as the Dahon Classic from Taiwan.

Even with 16-inch wheels, it could easily be stowed in the trunk of his Mini. He flew a sample back to Holland in the overhead bin of a 747.

Dahon, the world's largest folding bike company, is in Taiwan because of the plentiful supply of skilled labor and the flexibility in sourcing components.

Now, overseas clients such as Raleigh, Bridgestone, and Subaru come to Dahon for similar reasons. They are seeking Taiwan's exclusive property : INNOVALUE. That is, innovation in design and manufacturing that gives added-value to leading edge products.

Innovalue has just produced the world's first text-to-voice computer program. And it has helped a high tech racing helmet become affordable to thousands of cyclists.

In Taiwan, you'll find Innovalue in so many product areas. Perhaps yours. If you're interested, reach us on the Internet. You'll discover that it's not just products, but ideas and especially value that are VERY WELL MADE IN TAIWAN.

The ingenious Dahon Classic, despite its light weight, has enormous strength and reliability and can be unfolded for riding in 10 seconds."

Selected Taiwan products carry this Symbol of Excellence. It is awarded annually by an expert panel of judges only to products which excel in quality and innovative design.

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Internet http: //www.tptaiwan.org.tw

DEATH OF COMPETITION
rship & Strategy in the Age of Business Ecosystems
mes F. Moore
rBusiness • 297pp • $25

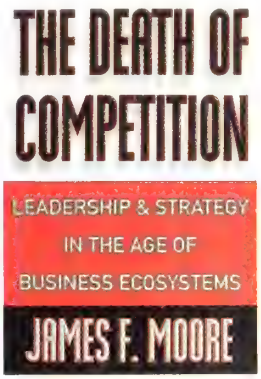
HE NEW BIOLOGY F BIG BUSINESS

he world of business has turned upside down. Bitter rivals now routinely plot out ways to col-rate. Suppliers of critical parts or ces are becoming partners with mers. And long-valued customers urning into competitors. If busi- is war, then enemies, and allies, verywhere.

gh-technology companies have n this for as long as the micro-ssor has been around—erasing bar- to entry and reducing differences een brands. The boundaries that clearly separated computer mar- have been blurring, clouding the of competition. So common had pairings of friend and foe become e late 1980s that Raymond Noorda, egendary former chairman of No-Inc., coined the buzzword "coopeti- to describe them.

ow comes James F. Moore, author *he Death of Competition*, with a more elaborate analysis. Moore business leaders must face the : Our traditional assumptions about stry are dead. Challenging "the pre-ption that there are distinct, im-ble businesses within which players nble for supremacy," Moore offers a view of what he dubs the "business ystem." Increasingly, he says, a com- competes across a variety of in-ries—which together make up its ystem. The companies within ystems compete and very often co-ate on many levels, coming up with vations, creating new products, and ing customers. Competitive advan- comes from understanding the ness environment and evolving with hile establishing an unassailable po-n in one corner of the ecosystem, as Intel Corp. has in microproces- or Wal-Mart Stores Inc. in retailing. nfortunately, Moore's attempts to ide a concise definition for this intriguing concept are not successful. He vaguely describes a business ecosystem as "an economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world."

Luckily, tangible examples, such as Microsoft Corp., give a good idea of what Moore has in mind. Gates & Co. participate in an ecosystem that cuts across several traditional businesses, including personal computers, consumer electronics, corporate-information systems, and communications. But Microsoft's unassailable position comes from dominating one corner of the techno-ecosystem—the market for desktop-computer operating systems.



Despite the book's title, Moore doesn't really believe competition is dead. As a management consultant who has worked with such companies as AT&T and Hewlett-Packard Co., he argues instead that competition is both intensifying and taking on a new form. Now managers must think on a broader scale, anticipating the evolution of their ecosystems and keeping an eye out for the emergence of new ones, such as Home Depot-like specialty superstores in retailing.

Netscape Communications Corp.'s experience with the Internet provides another illuminating illustration. Moore describes how Netscape recognized the change that powerful computer networks would bring to the computer industry and moved aggressively to stake its claim by distributing its Web-browser software free. In Moore's view, the Internet represents an ecosystem in the early stages of evolution. However, he offers little about the Internet's future or its effect on the old ecosystem's leader, Microsoft.

Moore relies heavily on metaphors from biology and ecology. Plainly, his grasp of these fields is impressive (he admits a biologist-consultant provided backup), and his images are effective. Only once does he go too far: "Horse waste," he says, "may be distinctly unappealing to us, [but] it represents a wonderful opportunity to a fly or fungal spore." Thanks for sharing.

For the most part, Moore's arguments are convincing, although at times they come across like standard market analysis. Still, he intelligently lays out what he describes as the four stages of market evolution: pioneering, expansion, leadership, and self-renewal. For illustration, Moore turns to the auto industry, which provides ample illustrations of nearly every stage, from the early days of motorcars to the entry of Japanese manufacturers to U. S. carmakers' dramatic reinvention of themselves.

In Moore's schema, Intel may represent the most evolved company. The author details Intel's hegemony in chips and astutely points out the friction with some PC makers such as Compaq Computer Corp. over Intel's practice of convincing PC buyers that they need ever-faster technology—which is great for Intel, but puts a big strain on PC makers. But as with the Internet and Microsoft, Moore passes up the opportunity for a more forward-looking discussion. If, as Compaq charges, many customers would be happy with a cheaper PC with a slower chip, Intel's relentless drive to high-end machines could represent an ecosystem-damaging practice. In fact, some analysts believe that, in computers, the rate of growth is slowing because prices are too high to reach new buyers. Unfortunately, Moore doesn't pick up on this issue.

Still, *The Death of Competition* will become essential reading for managers who want to put today's business climate into a larger, albeit ecological, context. At a time when the business environment changes so rapidly, perhaps a basic understanding of ecosystems could be the key to better management.

BY IRA SAGER

Sager covers computing for BUSINESS WEEK.

COMPANIES NOW COMPETE ACROSS A VARIETY OF NDUSTRIES, WHICH MAKE UP THEIR "ECOSYSTEMS"

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INFORMATION.

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BY STEPHEN H. WILDSTROM

CUTTING YOUR VERY OWN CD

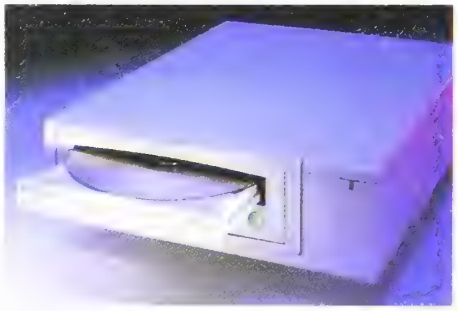
Simpler software and cheaper recorders make it easy to store mountains of data

The ad shows a quartet of business types trying to look cool. The headline announces: "A killer light show, multiple graphics, and a hip-hop beat. Accounting cuts its first CD."

Not quite so fast. Plunging prices and much easier-to-use software mean that the recordable CD, or CD-R, is no longer an exotic tool just for multimedia developers and artists. Prices for disk recorders, such as the Hewlett-Packard Colorado Memory Systems unit in the ad, have dropped below $1,000 and may go below $500 by yearend. But owning a CD-R doesn't make you a multimedia author any more than buying a videocamera makes you a cinematographer. Producing multimedia content demands both creative imagination and mastery of complex software.

Fortunately, there are plenty of uses for recordable CDs—from storing old files to preparing a catalog—that don't require you to learn multimedia techniques. A more sober Colorado Memory ad shows a trio of lawyers who used a CD-R to store "countless records." Archival storage is a natural use. A $7 recordable disk can hold up to 650 megabytes of data—equivalent to nearly 10,000 scanned-in pages—and writeable CDs are certified to retain the data for 10 years. Another obvious use for CD-Rs is the distribution of large databases. Once recorded, a CD-R can be read just like a floppy disk.

One of the beauties of CD-Rs is that once you've made a disk, duplicating it is relatively inexpensive—about $15 a copy for a run of 100 and well under $2 each in quantities of 1,000. Companies can turn out their catalog or training materials on CDs without hiring a team of specialists.



The Philips CDD2000 drive

It does take some practice to make your own disk successfully, however. You can't just copy files one at a time or in groups, the way you do to an ordinary disk. Most CD-R drives come bundled with special software, often either CD Creator 2 from Corel or Gear from Elektroson. I tested both programs in both Windows 95 and Macintosh versions, working with a Philips Electronics CDD2000 drive (with Corel CD Creator, the Windows version is $899 internal, $1,050 external; for the Mac, $940, external only.) Both programs are reliable and fairly easy to use, with the edge going to Corel for a "wizard" that guides you through the creation process.

To write a CD, you first collect all the material you want to copy. The data can include computer files of any sort, music tracks from CDs, and pictures from Kodak Photo CDs. All of the information is then "burned" into the CD-R in a single pass. The process will tie your computer up for about 45 minutes if you're writing a full disk using a double-speed drive.

FRISBEE FACTOR. Unfortunately, if any glitch should occur during the burning of a CD-R, your disk becomes a "frisbee," so-called because it's only good for tossing around the backyard. To minimize problems, both programs check for errors in your setup and let you simulate the complete writing of a CD without actually burning data into the disk. The industry is also developing a technique called packet writing that should be more tolerant of faults.

Erasable disks should make things easier, too. One variety of rewritable CD, called the PD disk, exists today, but it cannot be read by an ordinary CD-ROM drive. Later this year, Philips plans to bring out a new erasable disk, called a CD-E, that can be read by existing equipment.

If you don't need that much storage, you might be better off with a cheaper, simpler device, such as Iomega's 100-megabyte Zip disk. But if you want to deal with mountains of data, and especially if you need a lot of copies that can be read by standard equipment, then CD-R is for you.

CD TOOLS

CD CREATOR 2
COREL
(800) 950-5378
$199

GEAR
ELEKTROSON
(610) 617-0850
$299

BULLETIN BOAR

COLOR PRINTERS

BUDGET RESOLUTION

Macintosh users looking fo inexpensive color printing choose from two new StyleWriter inkjets that off higher resolution and fast output for about the same price as the models they replace. The $380 StyleWri 2500 from Apple Compute (800 538-9696) turns out

black-and-white text page per minute and prints a co page in about 40 seconds, with resolution of 720 by 3 dots per inch. The $280 StyleWriter 1500 offers sim resolution at half the spee Also new: The $189 StyleWriter EtherTalk Adap which allows StyleWriters t connect directly to Etherne networks.

SOFTWARE

TAILING COMETS

If the show put on by Com Hayakutake piqued your in est in astronomy, you migh want to look at First Light, Windows planetarium from Virtual Reality Labs (800 8 8754). The new Version 1.1 of the $69 program lets yo track Hayakutake as it leav earth's neighborhood and then prepare for Comet Ha Bopp, due next April. First Light, which offers data on thousands of other celestia bodies, allows you to watch the night sky and view the heavens from Mars, the mo or any perspective you choo

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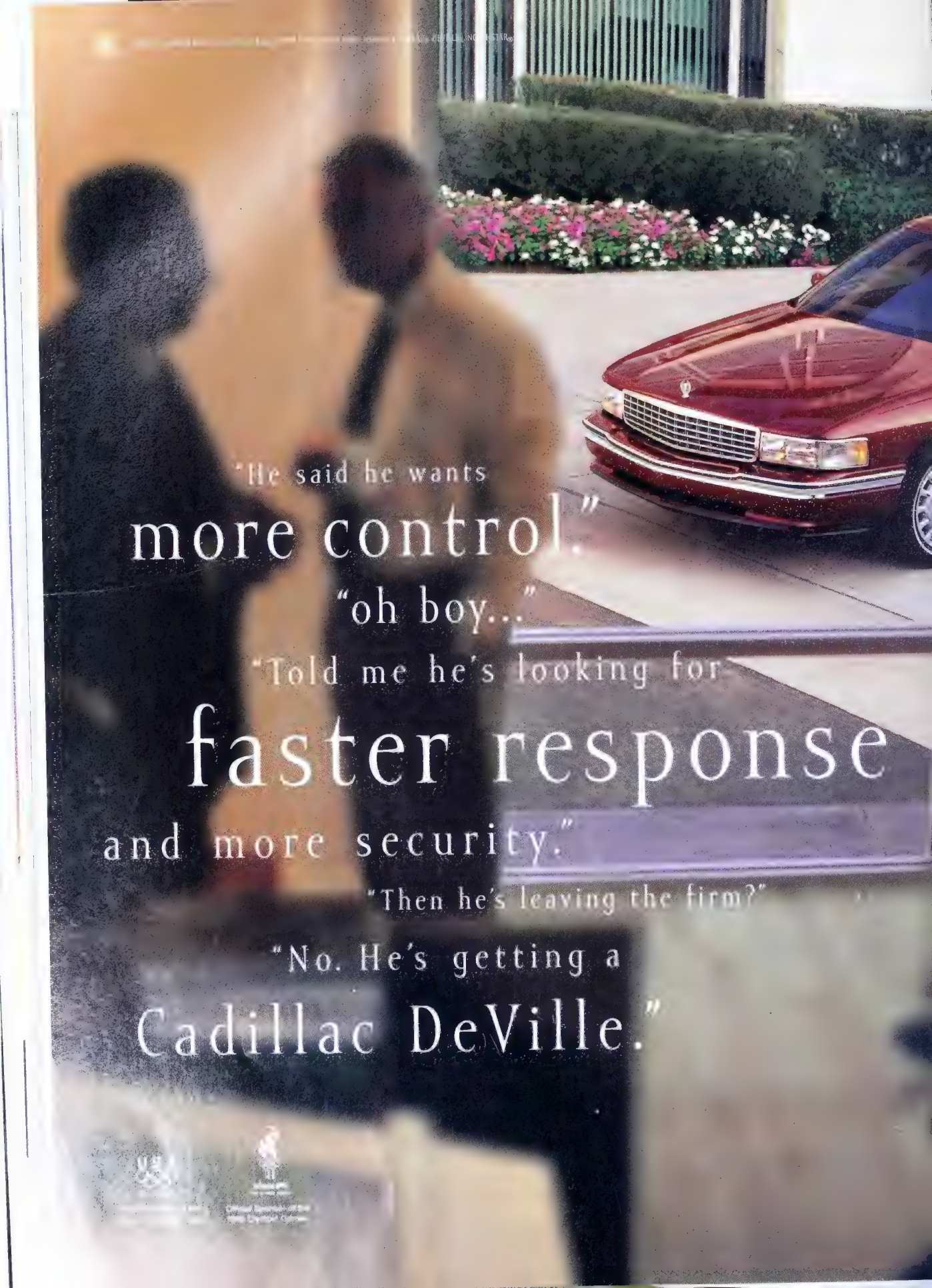
"He said he wants
more control."
"oh boy..."
"Told me he's looking for
faster response
and more security."
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BY RUDI DORNBUSCH

WHY THE WEST SHOULD HOLD ITS NOSE AND BACK YELTSIN

NO SAINT: Yeltsin shares the blame for the mess in Russia. But the other candidates in June's presidential election would be far worse

Last December, Communists took over the Duma, Russia's parliament. The next act in the drama of failed economic transition to capitalism will come in the June presidential elections. The U.S. is cheering for Boris Yeltsin as its great hope. Nobody has any illusion that Yeltsin is really good, but he is much better than the alternative candidates—full-fledged Communists such as Gennady Zyuganov or extreme nationalists.

To give Yeltsin a shot in the arm, the International Monetary Fund has provided an unprecedentedly large financial-aid package. President Bill Clinton will soon pay a visit to Moscow to throw in his support.

In most of Eastern Europe, with the exception of the Czech Republic, Communists have returned to power. In Belarus, they never left—and are now pleading to rejoin Mother Russia.

The Communists' return reflects two facts. The broad movements that swept Communists out of power in the first free elections were not able to form new political parties that could govern effectively. Communist parties remained the only large, coherent organizations. In addition, those who promoted the move to market capitalism promised an instant improvement in living standards. For many, that never happened. The quest for productivity meant sharp reductions in employment and deep cuts in real wages. True, there were no longer queues in front of near-empty shops. But that didn't help if people could not afford to buy the ample goods on display.

CRIME WAVE. Some supporters of reform claim that the reduction in living standards has been exaggerated, but people perceive it as real—and vote accordingly. The change in economic status cuts along age lines. In general, those below 35 are moving with the market. Older folks are being left behind, making them ardent supporters of populism, nationalism, or a return to state control.

Russia's move to the market was undermined by a mind-boggling takeover of economic activity by criminals. Around the world, the lobbies of five-star hotels are now full of champagne-sipping Russian gangsters who gained control of state-owned assets. Yes, there are opportunities in Russia—enough to get many thousands of criminals instant wealth. But that wealth is created by corruption, theft, and violence on a scale probably unprecedented in history. The other of this coin is mass poverty, because state's social safety net has dropped. In sia's transition, the long view is lost: Ins mega-cannibalization of assets is the Onetime KGB bosses and directors of st owned businesses have enjoyed an enorm plundering of these enterprises, and Ye has presided over all of it.

The lack of public institutions and of rule of law make the situation much worse Russia, foreign majority stock owners c get beaten up. Courts are nonexistent. P erty rights are mostly a matter of how m more an investor is likely to put up in the ture. And physical safety has to do with shoots faster. Not surprisingly, foreign vestment in Russia has remained minus and is dwarfed by Russian capital fl abroad.

STABLE PRICES. If Russia has turned in wrong direction, who is to blame? Ye certainly carries a major responsibility. was in charge, and he has handed out qu few prizes himself. Yet Yeltsin has also complished quite a bit. First and most portant, he stopped inflation. Only a year Russia was in the midst of hyperinflat For the moment, rising prices are not a sue, and the ruble has remained stable. ond, Russia has made major budget ref Vast subsidies for agriculture and state c panies have been trimmed and the deficit to manageable size. The IMF money is the finance the deficit and reduce the nee print money—and thus get Yeltsin a win for a comeback at the polls.

The most important development is a effect of budget balancing: In the past, agricultural party was both the political f that delivered subsidies to farmers and group that blocked land privatization and breakup of collective farms. With subsi gone, the party has lost its clout. Yeltsin brilliantly used the opening to propose privatization to benefit agricultural worke which has received an enthusiastic respo That may be the decisive step in getting a victory in June and an important step Russian reform.

Yeltsin deserves backing. The alternat would be a dramatic setback for econ reform in Russia and for security in Eur Yeltsin may be a bum, but he is the bum we have.

Chances are
we've helped your business.
(Even if you've never owned a Macintosh.)

k in 1984, a young company named Apple Computer did a rather narkable thing. It introduced a new way of computing. A new way of ting things done.

A new way named Macintosh.

Sure, personal computers had been around for a while. But never ore had one computer so completely, so instantly, changed the land-pe of the possible.

Making the extraordinary ordinary.

he 12 years since, Apple® innovations have continued to redefine what ple can do with a personal computer. They've also found their way some of our competitors' PCs and operating systems. For example, plug-and-play technology we brought to market in 1987 is just now oming a reality for other PC makers. Macintosh was one of the first rdable desktop computers to employ powerful RISC-ed microprocessors. (We're now working on fourth-generation PowerPC™ RISC chip.) d we're still the only company in the rld making a computer that runs h the Mac™ OS and Windows.*

As a result of these Apple innova-ns, ordinary people can sit down at all ds of PCs and actually get some work e. Of course, if they sit down at a cintosh, they can build 3-D graphics. Use virtual reality in very real ys. Videoconference across continents. Collaborate with colleagues on far side of the corporate campus. Build interactive sites on the World de Web. And more. That's the Mac advantage.

More than a few of the things that seem standard on a personal computer today were pioneered by Apple

People do know the difference.

lay, 56 million people do their work the Macintosh way. Some in ool. Some at home. And, when you look at the numbers from recent dies, quite a few in business. We command a 47% share of the U.S. nmercial publishing market. And 76.2% of the color pre-press market. d though our dominance in graphics-related businesses may not shock you, consider this: we have a 50% share of the chemical, pharmaceutical, biotechnology, scientific and engineering computing markets.

And then, there's the fact that Macintosh brand loyalty is the highest of any PC in the world: 90% of Macintosh customers buy a Mac the next time around. Which leads people like Andrew Laham, MIS Director at the law firm Fleming, Hovenkamp & Grayson, to say, "*There would be a major crisis if we had to do without Macs. In fact, there would be an open revolt.*" Indeed, if the mail we've received lately is any indication, more than a few CFOs out there would revolt, too, if their companies didn't use Macintosh computers.

"*NASA saved $800,000 a year on maintenance alone when we replaced their legacy system with a Macintosh system,*" says Steve Monteith, a member of the Research Triangle Institute TechTracS Team.

And if you replace a Windows system with a Mac? According to a recent study by the Gartner Group, technical support costs for Macintosh tend to be 25% lower than support costs for Windows.* Even *PC World* magazine ranked Apple as one of the best for reliability and service among all makers of personal computers.

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BY GENE KORETZ

JOB STABILITY—THE TRUE STORY?

It may reflect worker insecurity

There's little question that the rhetorical skills of Presidential hopeful Pat Buchanan have focused American media attention on the issue of layoffs. Paradoxically, however, several economic studies indicate that job stability—that is, average job tenure in U.S. labor markets—has hardly changed in recent decades, implying that job insecurity has been exaggerated.

An analysis of worker surveys in the 1980s and early 1990s, for example, finds only a slight decline in the share of those holding jobs for at least four years. Similarly, economist Henry Farber reports that job duration has remained relatively unchanged since the early 1970s.

But overall job stability can mask growing job insecurity. In a recent commentary, economist Robert G. Valletta

U.S. WORKERS ARE HANGING ON TO THEIR JOBS

of the Federal Reserve Bank of San Francisco notes that widespread cutbacks in "permanent" jobs could make workers a lot more antsy about cutting the umbilical cords to their present employers and looking for or undertaking new jobs. Feelings of insecurity would thus reinforce nominal job stability.

Indeed, Valletta's research reveals that permanent dismissals as a share of unemployment have shown a marked upward trend since the 1970s, particularly during cyclical downturns—even as employers' use of temporary layoffs during slow periods has waned. More important, recent data show an abnor- level of workers who have volunteerily left their jobs. Whereas such volunteerily moves normally rise sharply as an expansion matures and as workers feel more confident about their ability to find new work, the quit rate today is as low as it was at the end of the 1990-91 recession (chart).

If job insecurity is inhibiting workers from seeking new jobs that would more closely match their skills, labor market efficiency—and ultimately productivity—are at risk. The efficiency gains of downsizing could be offset by long-term efficiency costs.

BRIBES CAN COST THE U.S. AN EDGE

In some spots, honesty doesn't pay

When U.S. Trade Representative Mickey Kantor complained that bribery by foreign rivals overseas was costing U.S. companies $45 billion a year, he wasn't talking through his hat. A new study by Harvard University economist James R. Hines Jr. finds that U.S. companies took a beating after Congress passed the Foreign Corrupt Practices Act of 1977, which barred them from the bribery of government officials common in some countries.

Looking at the record, Hines found that U.S. corporate direct investment and exports declined markedly in "corrupt" countries in the five years after the law was passed. By contrast, investment and export activity in the same countries by America's foreign competitors accelerated sharply.

In short, although legislators expected others to follow America's example, the law's main effect seems to have been to weaken the competitive position of U.S. companies without reducing the use of bribery in foreign business deals.

BIG HOLES IN THE SWISS ECONOMY

A soaring franc is killing exports

Switzerland's officials don't like the word recession. Still, the nation's gross domestic product has slipped for three straight quarters, unemployment is rising, and exports, which account for 35% of GDP, recently stopped growing.

Blame German investors. As Citibank economist Sandy Batten notes, they have been rapidly shifting funds into franc-denominated assets out of fears that European monetary union would replace the German mark with a less secure currency. As a result, the Swiss franc has taken off, and exports are sinking. And the Swiss national has been slashing its discount rate frantic effort to stem the franc's rise (chart).

It has happened before: In the late 1970s, a global stampede into Swiss assets sent the franc through the roof and caused an export-led recession. The remedy then was record-low Swiss interest rates bolstered by taxes on interest payments to foreign investors. "It be the best strategy again," says Ba

IT'S NOT JUST TH ECONOMY, STUPI

Clinton's ace could be incumbe

What do practitioners of poli rics, the art of estimating the pact of economic factors on electio sults, see for November? Accordi economists at DRI/McGraw-Hill, now, President Clinton should wi election—at least on the basis o popular vote. Ironically, economic tors are mostly running against hi

Like other such formulas, DRI's tion model weighs the incumbency tor and several key economic varia Since a sitting President in the m starts off with 53.6% of the vote the other factors in the equation flation, unemployment, income gro and the possibility of an unpop war—that call the tune.

Based on DRI's forecast of the ec my's performance through the t quarter, mediocre growth and inc gains should subtract from Clin vote, while sluggish inflation will him a bit. Without the vote-gettin fluence of his incumbency, Clinton w be in a dead heat with Senator Dole—but with it, the model curre predicts a Clinton victory with 53.1 the popular vote.

Of course, a lot depends on w happens in the months ahead. A s in inflation or a recessionary decli household incomes could sink the P ident's chances. And, of course, the didacy of a Ross Perot or Ralph N would make polimetricians' crystal a lot cloudier.

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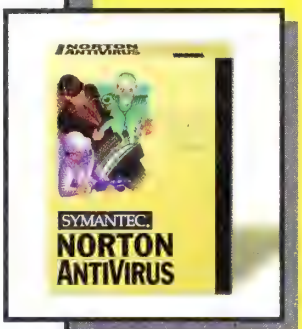

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JAMES C. COOPER & KATHLEEN MADIGAN

ONSUMERS WILL PASS THE BATON O OTHER RUNNERS

U.S. ECONOMY Consumer spending is often considered the economy's 800-nd gorilla: Because it's two-thirds of gross domestic duct, it takes the economy anywhere it wants to. So at happens when consumers just want to take it y? Then the economy's leadership has to come from small fry.

This year, all eyes will be on capital spending and ex-ts, weighing in together at only one-fifth of GDP. The d news for the outlook is that both sectors will w considerably faster than the 2% or so expected for economy as a whole. The bad news: The two wth rates will be slower than they were in 1995.

Consumers put in a surprisingly good showing in the first quarter. Their real spending jumped 0.9% in February, a rebound from January's 0.7% drop. Even if outlays hold steady in March, consumer spending will have risen at an annual rate of 2.8% for the quarter, up from the fourth quarter's 1.2%. But that pace will be hard to maintain, given ected modest growth in jobs, heavy household debts, sharply higher long-term interest rates.

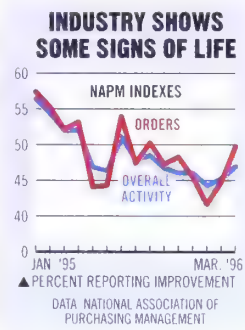
Consumers' showing in the first quarter means that economy grew faster than it did in the fourth. But t wasn't hard to do. The Commerce Dept.'s second at the fourth quarter shows that real GDP limped in an annual rate of 0.5%, down from the initially re-ted 0.9%. Consumer spending and housing were re-ed higher, but inventories grew at a slower pace n first thought.

The report also said that business spending on new nt and equipment increased by 10.7% last year, and orts were up 8.3%. Don't expect those sectors to e that much momentum in 1996, though. Soft de-nd and weaker profits will brake capital spending. wer growth in Europe and East Asia will offset an ected rebound in exports to Mexico and Canada art). However, foreign trade will be a plus for GDP wth because of a drop-off in the rise of imports.

E JANUARY DATA ON FOREIGN TRADE illustrate shifts in export markets. The trade deficit for goods services widened sharply, to $10.3 billion from $7 ion in December. Exports fell 2.2%. Imports rose %, to a record $76.9 billion. In the year ended in January, exports increased 7.2%, half the rate of the previous 12 months. The downshift has been broad, but it is most acute in goods going directly over U.S. borders.

To be sure, border exports in 1994 surged because of the signing of the North American Free Trade Agreement. But other factors have cut exports since then. Canada's sluggish growth and weak currency have diminished demand to the north. At the same time, the December, 1994, peso crisis and subsequent recession cut U.S. shipments to Mexico by 10% in 1995.

The 1996 outlook should be much better in both countries. Canadian GDP should increase about 2%, according to the consensus forecast of the *Blue Chip Economic Indicators* survey, and the Canadian dollar should strengthen a bit. Mexico's recession is over, with GDP growth forecast at 1.1% this year—far better than the 6.6% plunge of 1995.



The rebound in NAFTA trade will counter slower export growth elsewhere in the world. Germany, Europe's largest economy, may be in recession, which could drag down other European economies. Growth in many East Asian nations is set to slow a notch, as their governments try to rein in rising inflation. And Japan will remain sluggish until its banking crisis is over.

Exports, however, tell only half the story. Foreign trade will still be a plus for 1996 growth because of an import slowdown. With consumer demand rising about 2% and business investment ratcheting down, foreign producers will face slack U.S. markets. Imports in January were up 6.2% from a year ago, just one-third of the 18.1% rise in January, 1995.

U.S. MANUFACTURERS know a thing or two about the inertia of domestic demand. The National Association of Purchasing Management said that its business activity index rose to 46.9% in March, from 45.2% in February, but the reading was still below 50%, a sign that manufacturing is contracting. However, the broad impact of the strike at General Motors Corp. may have had a negative effect on the survey.

Even so, the report did contain glimmers of a better second quarter. The new orders index improved strongly, to 49.7%, from 44.7% (chart), helped by increased export bookings. And inventories were pared at a faster

rate last month than in February. The NAPM inventory index fell from 43.9% to 38.8%, the lowest reading in more than four years. The combination of rising demand and fewer goods on hand means businesses will have to gear up output—if only modestly.

THE OTHER SECTOR TO WATCH this year is capital spending. It will continue to grow faster than the overall economy, but it is also slowing down and won't provide the growth leadership it has in the past.

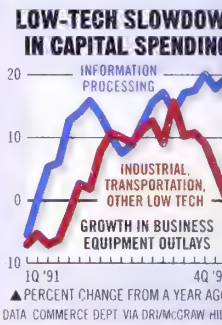
During the past four years, real outlays for new buildings and equipment have grown at an annual rate of 7.7%—10.2% for equipment alone—contributing 28% of the growth in GDP, although such spending is only 10% of GDP. In the fourth quarter, however, business investment rose at an annual rate of only 3.1%, the slowest quarterly pace in more than three years.

Looking to 1996, Commerce's survey of spending plans projects that outlays, unadjusted for inflation, will rise a mere 1.5% this year, down sharply from last year's 8.1% pace. The survey may be underestimating the eventual gain, though, as was the case in the 1995 survey taken this time last year.

As it now stands, transportation, wholesaling, and retailing plan outright spending declines, while communications expects no increase. Manufacturing outlays will slow from last year's 12.4% pace, but factories still plan a solid 7.2% increase. Factories are investing heavily in new technology for competitive reas

In fact, the sharpest slowdown in equipment out last year occurred in low-tech categories, such as dustrial machinery and transportation equipme which make up about 60% of hardware purcha Annual growth slowed to 0.5%, from 10.2% in 19 High-tech investment in computers and other in mation-processing hardware continued to grow a rapid 19.4% annual pace (chart).

Low-tech spending is responding to traditional cyclical depressants: weaker demand, slower profits, and lower operating rates. High-tech outlays, while also likely to slow somewhat this year, are driven more by the long-term trend toward enhanced productivity and competitiveness. That trend will continue to support business investment in 1996.

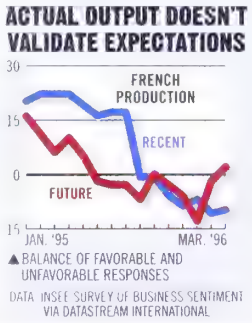


The trends in business investment and foreign tra while less robust than last year, will keep the econo on track, as consumers stroll along. Of course, if hou holds decide to pull out of the expansion altoget they could easily drag the economy into a recess But for 1996, at least, the gorilla seems content to back and let other sectors run the show.

FRANCE

THE ECONOMY LACKS *JOIE DE VIVRE*

For months, private forecasters knew the French government's projection of 2.8% economic growth for 1996 was optimistic. On Mar. 25, the forecast was slashed to 1.3%. Still, Finance Minister Jean Arthuis maintains that the government will meet this year's deficit target of 288 billion francs ($57 billion) and that the overall public-sector shortfall will dip to 4% of gross domestic product in 1996, and to the Maastricht criterion of 3% in 1997. Don't count on it.



The problem: a weak economy. France has averted a recession, thanks to a lift from government spending and tax incentives that buoyed growth during last year's sharp second-half slowdown. But weak private-sector demand has left businesses with excess inventories that will have to be run down at the expense of gains in output and jobs. In March, businesses were more upbeat about the future, but readings on recent orders, output, and pricing stayed soft.

Consumer demand appears to have rebounded in the first quarter, but that's a temporary bounce from December's strike-depressed levels. Going forward, higher taxes, including a February hike to cut the social security deficit, will depress buying power, and a weak job market will limit income growth. The jobless rate held at 11.8% in February and is expected to top 12% this year. And the franc's recent strength and German-led weakness in Europe will restrain exports.

Government demand is set to decline. On top of other restrictive budget measures, the recent freeze in spending credits intend to save 20 billion francs. Still, th combination of a spending overshoot, due to rising unemployme compensation, and a revenue shortfall, due to the weak economy, is shaping up to be well larg er than that planned saving. The social security deficit is expected to miss its target as well.

With 2% inflation and a strong franc, the Bank of France has room to trim interest rates. But attempts to squeeze the deficit more will put the economy—and the government of Prime Minist Alain Juppé—at risk.

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RON BROWN'S LEGACY

Business' best pitchman was also one of Clinton's most able aides

Traditionally, the Commerce Secretary's job goes to one of the President's top business contributors. Ronald H. Brown was different—and the difference may have cost him his life. Not content to confine his role to poring over economic statistics, Brown became business' most aggressive pitchman ever, leading one trade mission after another to win deals for American corporations abroad.

It was on just such a mission, to expand economic ties to the war-ravaged former Yugoslavia, that Brown apparently lost his life. On Apr. 3, an Air Force plane ferrying Brown, Commerce Dept. staffers, and American executives crashed in foul weather near Dubrovnik, Croatia. Among those also presumed dead: Paul Cushman III, chairman of Riggs International Banking Corp. and Walter Murphy, an AT&T senior vice-president. Brown "was continually reaching out," a tearful President Clinton told Commerce Dept. employees. "This job was ready-made for him."

Brown's death robs Clinton of one of his ablest aides. A former Democratic National Committee chairman, Brown was a close political confidant. "Bill Clinton loved this guy," says veteran Democratic strategist Tony Coelho, chief executive officer of ETC, a New York-based educational-technology company. "He trusted his political judgment."

The 54-year-old Washington lawyer's lasting legacy, though, will be as a savvy proponent of Clinton's industrial policy—the idea that Washington and business should team up to develop U.S. products and pressure foreign governments for access and overseas markets. The goal: to boost U.S. exports, create jobs, and beat the Japanese and Germans at their own games.

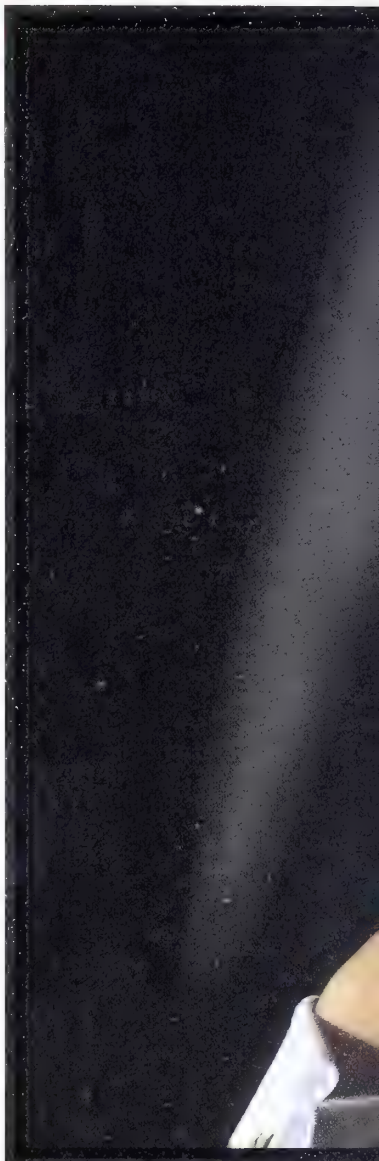
It sounds simple, because Brown made it look easy. Jetting from capital to capital with execs in tow, he closed a series of megadeals that won him a strong following among CEOs. "Ron Brown is the greatest Commerce Secretary the U.S. has ever had," says Dennis J. Picard, CEO of Raytheon Co.

TRW Inc. Chairman Joseph T. Gorman traveled with Brown to China. Brown, Gorman says, "always did his homework. He knew the businesses of every CEO on that plane to China." Adds John F. Sandner, chairman of the Chicago Mercantile Exchange: Brown "exuded energy. He never stopped moving."

That same drive led Brown into some questionable business dealings that prompted an investigation by an independent counsel—and prevented him from taking a top post in the President's reelection drive. Many CEOs who traveled with Brown were discomfited by his Beltway-operator style. But his ability to bring home the bacon still made a seat on Air Brown a hot ticket in the business world.

ARM-TWISTING. Brown wasn't the first Commerce Secretary to take CEOs on trade missions. Reagan Chief Malcolm S. Baldrige and Bush honcho Robert A. Mosbacher were frequent fliers, too. But Brown raised such junkets to an art form. Says Wayne Berman, a top Commerce official under Bush: "Brown was the first Democratic Commerce Secretary to understand the role of government in the world marketplace."

Among Brown's biggest commercial scores: a $4 billion telecommunications pact for AT&T in Saudi Arabia in 1994, contracts totaling $6 billion for Boeing and McDonnell Douglas airliners in Saudi Arabia, and a $1.4 billion deal for Raytheon to build Brazil an electronic

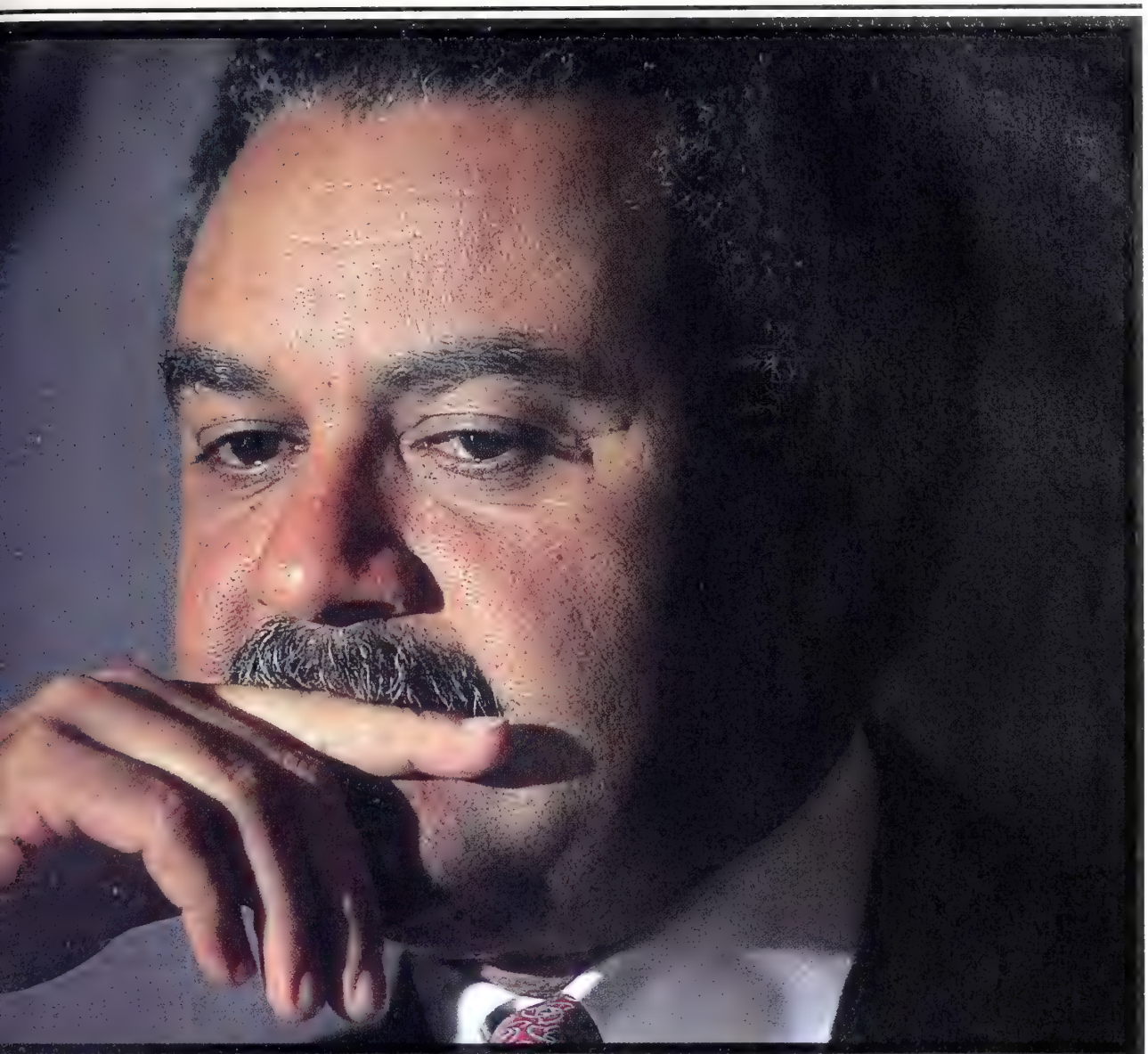


He aimed to boo

surveillance system to monitor the forest.

To nail down these contracts, Br relied on more than just his consider charm. He was relentless in arm-tw ing foreign officials. Sanford R. Rob son, chairman of San Francisco-ba Robertson, Stephens & Co., recalls August, 1994, trip to China. Mid through a meeting with President J Zemin, Brown brushed aside the nice and began pressing his hosts to Chrysler minivans. Brown "said: 'W really like to talk to you seriously ab the contract,'" Robertson recalls. knew how to ask for the order."

Brown didn't win that particular der. And there was less than meets eye to some of his coups. For insta Raytheon's deal aroused such a American hostility in Brazil that cials were forced to defer the purch



rts, create jobs, and outfox overseas competitors

espite such setbacks, many of wn's transactions did bring U. S. tinationals big bucks. But hawking ls was only part of his approach. ther reason for his globe-trotting: desire to weave together a new set lobal relationships between U. S. ex- ers and their foreign counterparts. was good at creating the right at- phere," says Leslie G. McCraw, CEO luor Corp.

MOOZING. For example, last No- ber, Brown engineered a schmooze- n in Seville that united 100 Ameri- and European CEOs. U. S. icipants say it helped produce agree- ts to ease some trade barriers. In ions such as the Seville conclave, wn "wasn't just selling goods," says ox Corp. Vice-President J. Michael ren, a trade official under Mosbach- "He was advancing policy and developing positive relationships overseas."

Indeed, Brown became such a household name in Asia, U. S. execs report, that dropping his name in meetings with foreign commercial officials became a common practice. The Chicago Merc's Sandner says executives found it helpful on trips to the Pacific Rim to say, "'Ron Brown sends his good wishes.'"

Despite Brown's success, he was also mired in controversy. His tangled dealings with media entrepreneur Nolanda Hill and his son Michael's consulting for energy interests drew fire from Capitol Hill Republicans. The controversy led to the appointment of an independent counsel. The same week Brown's plane went down in Croatia, sources close to the inquiry reported that the scope of the probe was widening.

For an Administration still in shock over the crash of Brown's plane, talk of a possible successor strikes many officials as premature. In the interim, the President tapped Mary L. Good, Under Secretary for Technology Administration, as acting secretary. But Washington's rumor mills already are churning. Leading candidates for the top spot include White House Counselor Thomas F. "Mack" McLarty III and Stuart E. Eizenstat, the new Under Secretary for International Trade.

Most likely, Clinton will have to go with a placeholder Secretary until his own political future is clear. But even in a second term, business execs say it will be tough finding another pol to fill Brown's Armani suits. No one soon will forget Ron Brown's trademark hustle.

By Amy Borrus and Douglas Harbrecht, with Paul Magnusson and Susan B. Garland in Washington, and bureau reports

TELECOMMUNICATIONS

SBC-PACTEL: A CREDIBLE HULK?

After deregulation, scale makes all the difference

Is the Bell System back from the dead? It's tempting to think so when Baby Bells start merging. Instead of attacking each other's markets in the wake of telecommunications reform legislation, SBC Communications Inc. and Pacific Telesis Group announced on Apr. 1 that they are rejoining the bonds that were sundered when they and five siblings were split off from AT&T in 1984. The new entity—a $22 billion giant covering California and Texas—will be second in size only to AT&T. The merged company aims to grow in part by charging into long-distance service, which the Baby Bells were enjoined from entering as part of the 1984 breakup. Boasts SBC Chief Executive Edward E. Whitacre Jr.: "We will create one of the largest, most competitive, and most capable telecommunications companies in the world."

In truth, ambitious as he is, Whitacre isn't out to replicate Ma Bell. Even if regulators did let down their guard, there's no going back to the days when a single company dominated all aspects of U. S. telecommunications. That's because SBC isn't the only company bulking up by acquisition. Any megacompany that aimed to rebuild a telecom monopoly would be rebuffed by equally big and powerful rivals. "You can't put the toothpaste back in the tube," says W. Russell Neuman, a professor of communications at Tufts University's Fletcher School of Law & Diplomacy.

What is clear, though, is that the size of communications and entertainment companies matters. Analysts say the goal for many entities is to hit a magic $25 billion in annual revenues—out of fear that anything smaller makes them a target. With its $22 billion in combined sales, the new SBC is just shy of that. "Like airlines in 1980s and banks in the 1990s, you'r ther a superregional or you're out," Mark R. Bruneau, president of com nications consultants COBA Ltd.

BUILDING BLOCKS. Whitacre, a 6-fo Texan who is a veteran of the Bell tem, is determined to ensure that company will not only survive thrive. Once San Antonio-based SBC quires San Francisco-based PacTe about $17 billion in stock, it will ope in seven of the nation's 10 largest m areas and provide 30 million phone l Even without this deal, SBC is the l U. S. cellular provider after AT&T.

Capitalizing on deregulation, the pany, which provides long-distance vice to its cellular customers, now h to offer the service to its regular p consumers within 12 to 18 months, ulations permitting. Long-distance enues in the SBC-PacTel terri amount to some $14.5 billion a y about 20% of the U. S. long-dist market. "We'll not have a pres everywhere," Whitacre says. "But new company will take full advanta the strengths of both companies."

SBC's agreement to buy PacTel c like a thunderbolt, in contrast to drawn-out, not-so-secret, and still consummated courtship between N and Bell Atlantic. The Eastern me if it happens, is aimed mainly at ach ing efficiencies among neighbors.

In contrast, SBC leaped over ne boring U S West Inc. to link up PacTel in pursuit of growth. Among er things, highly profitable SBC will PacTel's plans to build a California personal communications network t place the cellular network that Pa spun off two years ago as Airt Communications.

BABY BELLS, TOGETHER AGAIN

PACIFIC TELESIS

PacTel has 15.8 million phone lines. Although it spun off its cellular business, it is building a new wireless network in California. It also plans to offer "wireless cable" TV.

SBC COMMUNICATIONS

SBC, formerly Southwestern Bell, is the nation's second-largest cellular operator. It has 14.2 million phone lines in the U.S. and big foreign operations.

Ca TV Br Fra an Isr

of Teléfonos xico and wireless ations in Mexico, South Korea, and South Africa

INTERNATIONAL · WIRELESS NETWORKS · WIRED NETWORKS · CABLE AND MICROWAVE TV

DATA: COMPANY REPORTS, BUSINESS WEEK

o be sure, even mergers that make se won't be easy to make work. In Tel, SBC is acquiring a company se revenues and earnings have dily slipped amid the state's eco- ic woes and mounting competition. California, the first state to allow lo- competition, 90 companies including T and France Telecom want to offer ices. PacTel is so strapped that as of the merger it will become the Baby Bell to reduce its dividend, 5% in the second quarter.

CUTS. Although SBC and PacTel are nplaying job cuts as a result of the ger, they are almost inevitable. SBC ne more heavily staffed and would e to cut 7,200 jobs to achieve the same ratio of phone lines per operating-company employee as PacTel's Pacific Bell unit. Says Sprint Corp. President Ronald J. LeMay: "All of these major transactions make people take their eye off the ball." Royce J. Holland, president of MFS Communications Co., which competes with the Bells, hopes the merger will goad customers into considering alternative services. "The only thing slower moving and less responsive than one monopoly is a consortium of them," he says. With all that in mind, investors swooned at the 40% premium SBC will pay for PacTel shares, lopping 5.2% off SBC's shares on Apr. 1.

Still, Whitacre has proved such naysayers wrong before. His widely criticized 1986 purchase of MetroMedia's cellular business for $1.4 billion now delivers $1 billion in annual cash flow. A stake in Teléfonos de México is worth more than SBC paid despite last year's plunge on the Mexican Bolsa.

Is Ma Bell returning? Some people think she never left. Whitacre is fond of quoting a survey that indicates 25% of SBC customers still think of AT&T as their local phone company. Whitacre wants to get that notion out of their heads—and what's more, make his customers start thinking of SBC as their long-distance company.

By Gary McWilliams in Houston, with Peter Burrows in San Francisco and Catherine Arnst in Denver

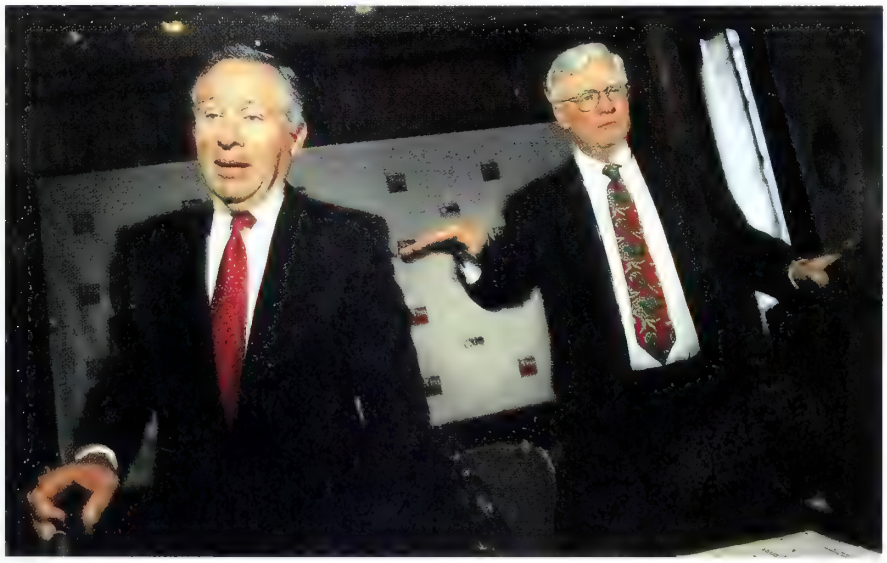
ALS

ETNA'S OOSTER SHOT

$8.9 billion merger makes o.1 in managed care

ll right, it wasn't much of a surprise. For months, the entire health-care industry knew that Aetna Life asualty Co. was chasing a deal. The insurer was counting on $4 billion the anticipated sale of its property-alty unit to Travelers Group Inc.—CEO Ronald E. Compton had vowed icly to overhaul his old-line company. ven so, Aetna's $8.9 billion deal to U S Healthcare Inc., announced 1, was a stunner. In one step, pton will turn the stodgy insurer the nation's biggest managed care pany, marrying a health-maintenance nization recognized for aggressive controls and relatively sophisticated ems. "We have completely refocused na," Compton crows.

SALVO." He also will raise the bar scale and breadth in an industry that ready consolidating rapidly. "This is g salvo," says Gennaro J. Vasile, of Gemini Consulting Inc.'s health- practice. The drive for heft is trans- ning health care: HMO giant United HealthCare Corp. now markets its products nationally, the first fruit of its merger with insurer MetraHealth. And on Mar. 29, Columbia/HCA Healthcare Corp. announced its intent to pay $299.5 million for most of Blue Cross & Blue Shield of Ohio, an unprecedented combination of hospital chain and insurer.



ABRAMSON & COMPTON: *Their task is to meld "inherently different" cultures*

The market appears headed toward domination by a few large players—and Compton clearly wants Aetna to be one. Since 1992, he has shed a reinsurance business, ditched property-casualty lines, taken massive reserves for environmental claims, and cut more than 4,000 jobs. Asset sales, which accelerated after the arrival a year ago of former Continental Bank executive Richard L. Huber, likely will continue. "I believe their international business is the leading candidate for sale—and then their pension-management business," says Oppenheimer & Co. analyst Alice D. Schroeder.

Aetna, then, will become mainly a health-care outfit, with at least two-thirds of revenue derived from health plans. Already, it has managed-care operations in 21 states, serving 7.5 million

EMAKING AETNA

n Compton's gest moves

OVEMBER 1992 Sells tna's reinsurance unit to management team anced by buyout firm hlberg Kravis Roberts for .3 billion

DECEMBER 1993 Completes reassessment of Aetna and takes a $1.3 billion charge for discontinued units and restructuring

JANUARY 1994 Exits the guaranteed investment contract and single-premium annuity businesses; lays off 4,000 workers

FEBRUARY 1995 Names Richard Huber, former vice-chairman of Continental Bank, to the new post of vice-chairman

MARCH 1995 Puts Aetna's Aeltus investment management subsidiary up for sale, but receives no acceptable offers

NOVEMBER 1995 Sells the property-casualty business, a perennial underperformer, to Travelers for $4 billion

APRIL 1996 Buys U S Healthcare for $8.9 billion in cash and stock

DATA: COMPANY REPORTS, BUSINESS WEEK

people. But its thin provider base hasn't allowed economies of scale, and industry executives say the business hasn't truly clicked. Aetna's medical costs eat up 85¢ of every $1 in premiums—10¢ more than at U S Healthcare. And U S Healthcare's 1995 operating margin of 10.6% was more than triple Aetna's.

Significantly, a pair of U S Healthcare executives, Michael J. Cardillo and Joseph T. Sebastianelli, will run the combined company, and Chairman Leonard Abramson will join Aetna's board. "That was the smartest move," says Richard Sinni, a principal at Buck Consultants Inc. "They put U S Healthcare in charge." The HMO, based in Blue Bell, Pa., is already famous for negotiating strict contracts that hold doctors and hospitals directly accountable for costs and quality. It now will attempt to apply its systems to a combined membership of 14 million.

CULTURE CLASH? Indeed, the success of the merger hinges on its ability to do so effectively. Will cultures collide? "Making a coherent whole out of the inherently different systems of indemnity and managed care is no small task," says Joseph T. Lynaugh, CEO of New York Life Insurance Co.'s NYLCare Health Plans unit. Compton expects that much of the new company's growth will come from point-of-service products, a less draconian form of managed care that is not U S Healthcare's strong suit. And U S Healthcare executives have, over the years, derided the inability of traditional insurers such as Aetna to contain costs.

That said, U S Healthcare's average medical cost per commercial member jumped 5% last year, even as average premiums dipped 1%. In fact, Wall Street questioned whether Compton is paying too much for an enterprise that may be at the top of its game. Aetna shares dropped 4.6%, to 72, on word of the deal. Compton claims that within 18 months the combined company will realize $300 million in operating efficiencies and new business. "I'm not embarrassed about the price I paid," he says.

For years, Wall Street has pondered Compton's strategy—and questioned whether a venerable insurer could go toe to toe with the new breed of managed-care companies. The U S Healthcare deal appears to be an admission that Aetna couldn't do it alone, after all. But it's a bold stroke, laying groundwork for the first truly national entity in an industry still fractured and parochial. Aetna, in any case, will be stodgy no more.

By Tim Smart in New Haven and Keith H. Hammonds in New York

STRATEGIES

CHAIRMAN FIX-IT AT VIACOM

The Kirch deal may help Sumner Redstone quiet his critics

For a self-made billionaire, Viacom Inc. Chairman and Chief Executive Sumner M. Redstone lately has had a hard time getting much respect. He was roundly criticized for his abrupt firing of longtime Viacom CEO Frank J. Biondi Jr. in January and derided for his decision to directly oversee Viacom's far-flung operations. Since then, the pressure has been on the 72-year-old Redstone to show that he's up to the job. Viacom's depressed stock price—shares are down 24% since last fall—indicates that many investors still have their doubts.

But Wall Street may not be giving Redstone his due. The CEO has moved quickly to fix two problems that he maintained Biondi was slow to address: Viacom's need to expand outside the U. S. and the tough job of reining in Paramount, a studio that has been turning out too many marginal movies.

CLEARER PICTURE. The move that may quiet Redstone's critics somewhat is a TV distribution deal that Viacom is now finalizing with German media powerhouse Kirch Group. The two companies had discussed such an agreement as long ago as last fall, but talks had stalled until February, when Redstone rekindled negotiations with German media mogul Leo Kirch. With the arrangement, Viacom will earn $1 billion to $1.5 billion in licensing revenue over the next five years, with an option to renew for other five years, according to sou familiar with the agreement.

The deal applies to all of Viac filmed content, including future p uct, from Paramount feature film Paramount-produced TV programs. programming will be offered on Ki pay- and free-TV services in Gerr language markets. Additionally, Viac Nickelodeon, MTV, and VH-1 progr ming will be carried as separate c

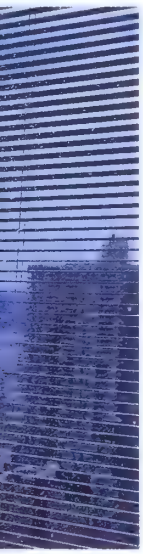
LOOKING OVERSEAS
Redstone is moving quickly to expand outside the U.S. Soon, Viacom's filmed content will be seen in German-language mark

nels on Kirch's new DF-1 digital pa service, which is set to debut in over satellite and cable. "The ma tude is significant. Viacom has not b strong internationally, [and this i good step forward," says Cowen & media analyst Harold L. Vogel.

Redstone's rep should also ber from the clearer picture at Blockbu Entertainment Group. Analysts year worried that the huge video tailer was facing a mature U. S. re market as it added hundreds of st and failed to recognize a shift to vi that were sold rather than rent

se fears didn't materialize in Block-
er's 1995 results, which were sur-
ingly strong, with operating profits
23%, to $785 million, and sales up
, to $2.4 billion.
iacom shouldn't miss a beat over
late-March departure of Steven R.
rard, who quit as Blockbuster's CEO
oin his mentor, H. Wayne Huizenga,
unching a chain of used-car stores.
rard had hinted for some time that
vould leave. For weeks, Viacom had
n courting as his replacement long-
e Wal-Mart Stores Inc. senior exec-
e William R. Fields.

LLER SLATE. Now, Blockbuster is
ing more like a source of growth
Viacom, especially abroad. Analysts
ect Fields to transform Blockbuster
ets into broad-based superstores of-
ng movies, books, magazines, and
ic. "I view Blockbuster as an en-
ainment vehicle," says Fields. "We
ly have the opportunity to leverage
erent forms of entertainment, [inte-
grating] all the properties Viacom pro-
vides us."



Redstone is also spending one or two weeks a month in Los Angeles tending to Paramount, which had a string of disappointing movie releases in 1995. With his background as an owner of movie theaters, Redstone is convinced that studios are turning out so much product that theater operators are pulling potentially profitable films out of theaters quickly as even newer films are re-
ed. Redstone has slashed the num-
of movies Paramount plans to re-
e in a year from the mid-20s to the
- or high teens, says Viacom
uty Chairman Thomas E. Dooley.
not the number of films you make,
the number of profitable films you
e," he says.
ome analysts believe that Viacom's
k will rebound as soon as it be-
es clear that Redstone can cut it
hands-on operator. "It's going to
a while for the Street to under-
d," says Sanford C. Bernstein &
media analyst Tom Wolzien. Putting
long-smoldering fires at Paramount,
oing a star hire at Blockbuster, and
ing the Kirch deal might be enough
investors to begin to give Redstone
benefit of the doubt.

y Elizabeth Lesly in New York,
bureau reports

REAL ESTATE

SIMON SAYS: GROW

The mall slowdown isn't slowing this family dynasty

THE SON ALSO RISES: *Herbert, Melvin (left to right), and the new CEO, Melvin's son David*

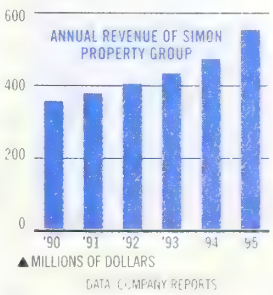
For nearly 25 years, Herbert and Melvin Simon lived the retail version of *Field of Dreams*: Beginning in 1959, they built strip malls on thoroughfares across the Midwest and consumers came in droves. By the late '80s, the Simon brothers had the nation's second-largest mall empire, behind only Rouse Co. And in 1992, they bested their rivals by opening the mother of all U.S. malls: The Mall of America, a $625 million behemoth near Minneapolis. It boasted a roller coaster, a double-decker miniature golf course, and dozens of restaurants in a space the size of 52 football fields.

Trouble was, mall mania was beginning to fade. Since the early 1990s, the Indianapolis-based developers have been slugging it out in a market where too few stores occupy too much retail space and consumers overall have reduced the time they spend shopping in malls.

Now, with the company's annual earnings growth down to 8% from double digits during the boom, Melvin and Herbert are doing some shopping of their own. They announced in late March a deal to merge with rival DeBartolo Realty Corp. in a $1.43 billion stock swap aimed at creating the nation's largest publicly held real estate company. Says a banker who worked on the deal: "Mel and Herb realize the best thing [for developers] to do now is buy each other."

FROM SCRATCH. The deal also accelerates the changing of the guard for the Simon dynasty, which owns 62 malls and 55 shopping centers in 28 states. The Simon patriarchs, the sons of a tailor who immigrated from Central Europe, in recent years have been ceding control to Melvin's son David, 34, who will retain his position as chief executive officer of the new company. Melvin, 69, and Herbert, 61, who together built the business from scratch, will remain co-chairmen. But their strengths as developers and lessors are less suited to a climate of retail consolidation among major tenants and bankruptcies among specialty stores.

BUILDING REVENUE



The company "had a tendency to be too transaction-oriented," says David. "We weren't looking at the big picture."

A former investment banker at CS First Boston and Wasserstein, Perella & Co., David Simon joined the family business in 1990 and is credited with instilling much-needed financial discipline. The Indiana University graduate, who also earned an MBA at Columbia University, first won kudos working through a 1992 liquidity squeeze by refinancing more than $1 billion worth of properties, generating about $200 million in cash. In 1993, he strengthened the company's capital by taking it public. For the quarter ended Dec. 31, earnings rose nearly 30%, to $38.4 million, while revenues rose 13.9%, to $155.4 million. "We've gotten our house in order," says David.

For now, the challenge will be merging the operations of the two mall giants. DeBartolo, based in Youngstown, Ohio, boasts 50 regional malls and 11 shopping centers in 16 states. David Simon expects the union to save the companies about $9 million in overhead. The deal also broadens the Simons' reach beyond the Midwest and Texas to southeastern markets such as Florida. "I think most of the damage to malls has already been done," says David Simon. "I think we'll start seeing an uptick." Maybe so. But they had better be careful: *Field of Dreams* was a hit seven years ago.

By Ron Stodghill II in Chicago, with Zachary Schiller in Cleveland

COMMENTARY

By David Greising

A TOBACCO DEAL THAT COULD CLEAR THE AIR

Imagine the pangs in the stomachs of tobacco executives most days as they scan their morning newspapers. Former researchers lay bare the industry's secret lab tests on addiction, nicotine, and even rat poison. A lawsuit on behalf of all addicted smokers reaches the appellate court on Apr. 2 in New Orleans. Liggett Group Inc. settles health claims with the Food & Drug Administration. And seven states file suits to recover the costs of treating tobacco-related illnesses. One rattled top executive, RJR CEO Steven F. Goldstone, has even gone so far as to tell the *Financial Times* that an industrywide settlement of tobacco claims wouldn't be completely out of the question.

Goldstone's remark, which a spokeswoman says was overblown by the press, suggests that while peace may not be at hand, it's at least conceivable. Why would Big Tobacco, America's antismoking zealots, and Washington's bureaucrats even consider coming to a compromise? Because each has so much at stake.

DARK CLOUDS. Tobacco companies would like nothing better than to have the twin clouds of litigation and regulation blow away. Their market values would soar, and the companies could concentrate on their No. 1 priority: exporting to rapidly expanding overseas markets. Meanwhile, the antitobacco forces' real goal of an enforceable ban on the marketing and sale of tobacco to children is a deal that can be cut. And Congress and the President, while anxious to appease the health crowd, want even more to protect the 700,000 jobs and $55.3 billion in gross domestic product represented by tobacco—not to mention the industry's hefty political contributions.

But what would constitute a reasonable compromise position in the long battle over tobacco? Here is one proposal:

First step, Big Tobacco would need a permanent ban on product liability litigation—one that applies to all future lawsuits; private, state, and federal. To pave the way for such a deal, suits now pending would have to be cleared from the dockets. A reasonable guideline: Smokers who took up cigarettes before the health risks were known would get one amount, those who began smoking after the Surgeon General's warning would get less.

A ban on litigation would need a nod from Congress, which should demand access to all tobacco research in exchange. There is precedent for such protection: In 1977, during the swine flu epidemic, Congress granted pharmaceutical companies immunity against liability claims by people who fell ill from the untested swine flu vaccine. Still, a federal free pass might run into some constitutional challenges, namely the due process rights of private litigants and states' rights to sue. But that's for the lawyers to work out. They would have to rely on the federal right to regulate interstate commerce and the executive branch's willingness to forswear bringing suits against the industry.

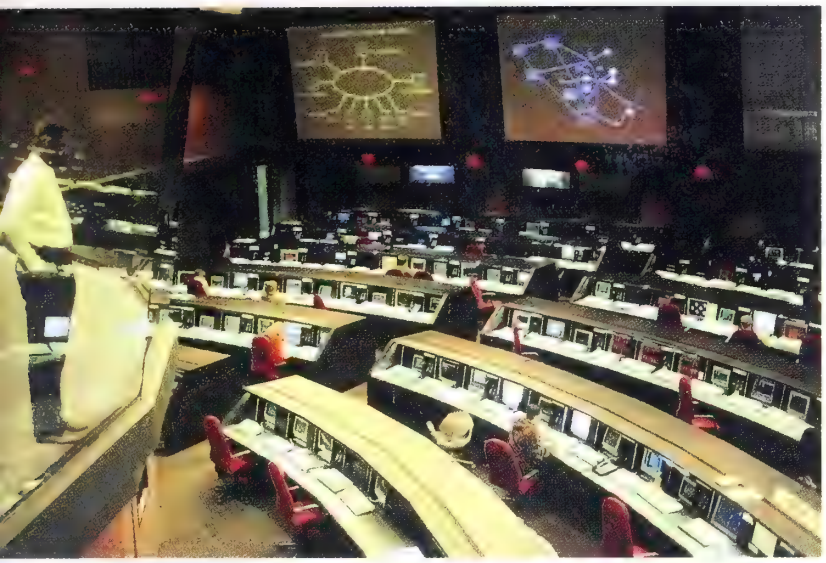
The FDA would have to cede ground, too—most important, its crusade to regulate tobacco as a drug. That's not impossible. Since the real goal of the FDA and the various health groups that lobby the agency is to stop cigarette sales to children, regulators would likely accept a deal that banned all vending machines and most advertising. Cigarette companies could publish only black-and-white, print-only ads—no frolicking couples, no phallic camels.

BIG JUMP. To win White House backing, Big Tobacco (or its customers) would have to ante up, say, an additional 25¢ per pack in excise taxes, for a total of $25 billion per year. That's about enough to cover the federal government's smoking-related health-care costs, but far less than the $1.25 a pack that President Clinton wanted to finance his national health-care reform plan. That would make excise taxes for a company such as RJR Nabisco Inc. about $6 billion a year. But considering Sanford C. Bernstein & Co. analyst Gary Black's estimate that RJR's stock market value could jump by as much as $56 billion once the pall of cigarette litigation were lifted, that's not such a bad deal at all.

This plan may sound too pragmatic—even cynical. But like any good compromise, it requires sacrifice on all sides. Besides, as any smoker knows all too well, there's no way to handle tobacco and come out without a stain.

> The overriding goal of the FDA and health groups is to stop cigarette sales to kids

Greising is BUSINESS WEEK's bureau chief in Atlanta



CLEANING HOUSE

To prepare for more Street scrutiny after the spin-off, EDS will write off obsolete facilities and take a $500 million-plus charge

RATEGIES

HY EDS WON'T BE SORRY BE SINGLE AGAIN

computer-services giant foresees more flexibility after GM

ter 12 years under the watchful eye of parent General Motors Corp., reedom is finally within reach of tronic Data Systems Corp. On Apr. 's board approved the terms of the awaited spin-off. But as the com- r-services giant ponders its future out GM, probably by June, the risks as large as the rewards.

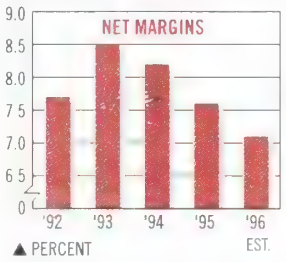
or starters, the nearly $4 billion in ess EDS gets from GM, or 31% of its all revenues last year, will slowly to competition. Although the two nailed down a 10-year service ement, 15% of the GM work could ut out for bid by 2000 and 25% by . EDS is also granting a price break omputing costs to GM, retroactive e start of this year.

T CONSCIOUS. EDS figures its reve- from GM will drop "slightly," with ts sliced by as much as $68 million year—or about 6% of some ana- ' prior estimates. EDS will also pay 00 million dividend to GM as the of freedom. While EDS called the a good one that locks in the world's est outsourcing agreement, inves- drove GM's Class E shares down to about 54½, in the days following announcement.

DS, which GM bought for a mere $2.5 n in 1984, is hardly in deep trouble. lyst William D. Rabin of J.P. Mor- Securities figures that its earnings climb 11% this year, to more than illion—before one-time charges—on a revenue gain of 18%, to $14.6 billion. "I'm telling investors this is an opportunity," says Rabin. "EDS as an independent company is going to be much more aggressive and much stronger." And GM still has a big stake in EDS, considering that its pension fund holds 150 million Class E shares.

As it prepares itself for increased Wall Street scrutiny, EDS is taking the opportunity to clean house. "They want to get lean as they spin themselves out," says analyst Terrence M. Quinn of Furman Selz Inc. EDS says that could mean writing off obsolete facilities and taking a pretax charge of $500 million to $750 million in the second quarter. EDS will also cut up to 5,000 of its 95,000 employees, though it says total employment should increase through new business. "Market conditions demand that we be very prudent with our costs," says Gary J. Fernandes, who will be vice-chairman after the spin-off.

TIGHTER MARGINS AT EDS



DATA: COMPANY REPORTS, J.P. MORGAN & CO

Since its founding in 1962 by Ross Perot, EDS has grown rapidly through outsourcing deals, in which it typically swallows the data-processing facilities and related employees of its customers. In recent years, though, the growth in costs has outstripped the gain in revenues. Howard Anderson, managing director of consultant Yankee Group Inc., says EDS must boost productivity by more than 20% to match rival Andersen Consulting. Partly as the result of heavy upfront costs on major contracts, EDS's operating margins fell from 13.1% in 1993 to 12.3% last year.

EDS has also been struggling to adapt to a market in which the mainframe is no longer king. Fernandes says one reason for the restructuring is to make room for employees with skills in desktop computing, the Internet, mobile computing, and other booming fields. Customers are also demanding help not just in installing technology but in rethinking business strategies and processes. That's a field where EDS has lagged behind such rivals as Andersen and Computer Sciences Corp. To beef up those skills, EDS last year bought consultancy A.T. Kearney Inc. for more than $300 million.

BREATHING ROOM. Despite what could prove a painful transition, EDS insists that its future is brighter as an independent entity. With its own credit rating, EDS will have "more efficient access" to capital and more flexibility in entering markets and forming alliances, predicts Chief Executive Lester M. Alberthal Jr., a 28-year EDS veteran. And after two years, it can use its own stock for acquisitions. Analysts say EDS is on the prowl for consulting and information-technology companies, particularly in Europe and Asia. EDS also expects more work from GM rivals in the automotive, aerospace, and consumer financing fields, where the company figures the spending on information technology tops $60 billion a year.

Rivals aren't quaking. "It's hard for us to see how EDS would compete any differently than they have," says Leon J. Level, chief financial officer at Computer Sciences. He figures there's room for everyone in outsourcing and consulting markets, which are growing by 15% to 20% a year.

Computer Sciences and others hope to nab some GM business. But EDS enjoys a powerful position as the incumbent. And it has two years before any meaningful amount of work can be taken away. That should be time enough for EDS to get in fighting trim.

By Wendy Zellner in Dallas

TAXES

THE IRS IS BADLY OVERTAXED

Antiquated computers, budget cuts, and layoffs aren't helping

In her spacious office overlooking Constitution Avenue, Internal Revenue Service Commissioner Margaret M. Richardson keeps more than the usual bound version of the federal tax code. Stuck in a corner is a hard hat left over from a groundbreaking ceremony—a bit of headgear she may need to block brickbats this season from Congress.

As Apr. 15 fast approaches, the agency, hit hard by budget cuts and internal management strife, has thrown all of its energy into one job—surviving this year's filing season. By most measures, the agency America loves to hate will make it through the season without the kind of delayed refunds that marred last year. Despite a $160 million budget cut, to $7.4 billion, and the projected loss of 8,000 jobs this year—7% of its workforce—Richardson says the service has processed 82% of the returns it received by late March. "It's been an amazingly smooth year, so much better than last year," says Tom Zimmerman, acting president of tax services for H&R Block Inc.

GRIPING. But Richardson, who has had the IRS's top job since 1993, is keeping her ship afloat by tossing overboard everything that's not nailed down. That's already taking a heavy toll on the agency's efforts to nab tax cheats. And in the long run, it could mean further delays in the IRS's disastrous computer-modernization efforts. The result: The federal government, always short on revenue, could be saddled with a revenue-collecting agency permanently unable to carry out its crucial mandate.

Tax professionals gripe that the IRS is able to process returns only by pulling many IRS staffers from other duties. Sheldon J. Ganis, a partner in Grant Thornton's New York office, says one recent client audit took 20 months because the IRS agent was twice pulled off for other assignments. Joseph F. Lane, a Menlo Park (Calif.) accountant, complains that getting a new Federal Employer Identification Number for a business client—a process that once could be done over the phone—now can take weeks. "Cutting services for tax professionals only produces a false economy," grouses Lane.

Individuals seeking advice have it just as bad. In the past year, Richardson has shuttered 93 of the 535 walk-in assistance centers. Instead, the IRS is encouraging filers to use a new automated phone-help line and its Web page on the Internet that lets users download tax forms.

The IRS never gets much support from Capitol Hill, but the GOP-dominated Congress has been hammering the agency at every turn. In a 1995 speech, House Speaker Newt Gingrich (R-Ga.) blasted IRS efforts to resume so-called "superaudits"—intensive exams to determine compliance trends—as "a little bit like the return of the Inquisition." Notes Richardson: "There has been more heightened rhetoric than at any other time in the 30 years I've been practicing tax law."

The criticism and the budget cuts have hurt agency morale. Some 45 senior executives took early retirement in 1995, including the head of compliance. "They're still talking a good game, but the effects of the brain drain are starting to show," says one former IRS official.

Perhaps most troubling, the agency's vaunted Tax Systems Modernization (TSM) program—designed to place its outdated system with a stat the-art network employing digital i ing—is in disarray. And lawmakers delay further funding unless the ag develops a coherent long-range plan. agency's proposed computer upgrade become a "$4 billion fiasco that is f dering because of inadequate plann says Representative Jim Lightfoot Iowa), chairman of a key House ap priations subcommittee.

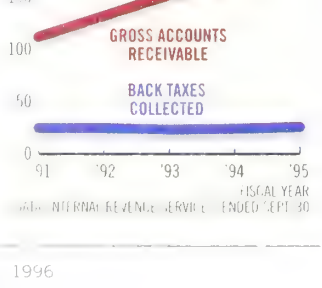
WORSE YET? After years of denia IRS officials, Treasury Secretary Ro E. Rubin admitted to a congress subcommittee on Mar. 28 that TSM "very serious problems." And he vo to give more authority to outside tractors, despite objections from IRS reaucrats reluctant to cede control. experts worry that the agency's quated computer system could coll before it can be upgraded. "They keeping those things running with ble gum and rubber bands," frets Hill staffer.

As tough as the IRS's current p is, some believe it could worsen. cause of the growing popularity of Internet, more commerce will be ducted in cyberspace. And with the tential for many of the transactior be conducted anonymously, the IRS not be able to keep pace with a generation of high-tech tax cheats.

Richardson remains confident the can adapt to the digital age. But as as the agency is trapped in a time w it may be in for a serious case of fu shock.

By Dean Foust in Washin

Falling Behind at the IRS



For Insight Into Better Order Processing, A Gravel Company Dug Into An Innovative Banking Process. Where Should You Dig?

Mine your own deep insights with
help of the Global Best Practices℠
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Their secret? Years of experience
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y to them. It's the first of its
d and still without peer.

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que in its class. That means, unlike many luxury cars, RL delivers its power immediately upon request.

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WINE

GRAPES OF WRATH

A tony California vintner claims Gallo ripped off its label

In the California wine industry, nobody tangles lightly with E. & J. Gallo Winery Inc. The Modesto (Calif.) company still sells one out of three bottles of wine produced in the state and holds tremendous clout with growers, distributors, and retailers. Patriarch Ernest Gallo is feared as a litigious, aggressive competitor.

On Apr. 1, however, Jess S. Jackson, chief executive of the state's premier chardonnay powerhouse, Kendall-Jackson Winery Ltd., and no wallflower himself, threw down the gauntlet. In a lawsuit that has gossipy Napa Valley uncorked, Jackson accuses Gallo of deliberately copying the logo and so-called trade dress of his wine bottles and marketing materials. At issue: Gallo's 9-month-old Turning Leaf brand, which features a single leaf decorated in fall colors. Jackson charges the label is remarkably similar to the single-leaf pattern that decorates his Santa Rosa (Calif.) winery's products.

Jackson says Gallo used focus groups to study what customers—who often forget the names of wines—remembered about Kendall-Jackson's labels. That, he says, is why Gallo picked the colored leaf out of a world of options. He's asking that Turning Leaf be yanked from store shelves, that profits be returned to Kendall-Jackson, and that punitive damages be awarded. "Our customers are confused," Jackson says. "They're asking us about our new label. We're afraid Gallo will cheapen our image."

BAGGAGE. The fiercely private Gallo operation won't answer questions about the suit and issued only an unsigned statement contending that its designs are "very different" and the complaint "is an obvious public-relations ploy."

Jackson produces recent market-share data showing that the cheaper Turning Leaf has zoomed to fifth place in chardonnays sold in supermarkets in recent weeks and even displaced Kendall-Jackson's pinot noir as that varietal's top-selling brand. Jackson has hired San Francisco litigator Frederick P. Furth, himself the owner of super-premium Chalk Hill Winery, to carry his banner. "If Gallo thinks this is a PR ploy, let's see them produce the data showing how they decided on the label and the design," says Furth.

It's no secret that Gallo remains saddled with the reputation of its former mainstay—lower-quality "jug" wines. Consumers have embraced more expensive varietal wines that emphasize the character of particular grapes, such as zinfandel or pinot noir. They have been slow to accept that Gallo, the maker of such palate-blasters as Thunderbird and Night Train Express, could also pull off a delicate chardonnay suitable for drinking with salmon in dill sauce.

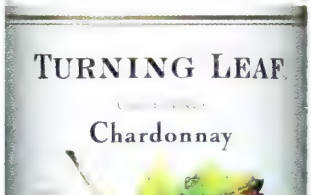
From 1990 to 1995, according to industry consultants Gomberg Fred son & Associates, Gallo's wine s ments declined by 20%, to 56 mil cases, despite efforts to bring out h er-quality varietal wines. During same period, Kendall-Jackson creased its shipments from 611 cases to over 2 million.

Legally as well as colloquially, term for trying to pass off one br as a competitor's is "palming off." lawsuit, filed in U. S. District C in San Francisco, in part alleges Gallo pressured distributors to pos Turning Leaf near Kendall-Jack wines in hopes of implying that i Kendall-Jackson product. Indeed, Gallo name is nowhere on the T ing Leaf label. "When I saw thought it was Kendall-Jacks says Darryl Roberts, publis of *Wine X* magazine. "Un saw Modesto on the labe thought it was KJ's ent in the lower range."

"VERY BLOODY." La aside, there are some scabs getting picked her well. Jackson and Gallo h tangled publicly over inc try lobbying and marke efforts in the past. Jack helped found the Far Winemakers of Californi represent the needs smaller producers. P Jackson, in his former as an attorney, once re sented Joseph Gallo, younger brother of Er and the late Julio, in a bi lawsuit. The older Ga successfully sued Josep prevent him from using Gallo name on his che business after claiming his poor-quality prod cheapened their brand.

"This is going to b very bloody and drawn battle," predicts Rich C tiere, an industry analyst with newsletter *Wine Business Insi* "These are two of the shrewdest pe in the wine business, and they're kind of people who'll fight to the fini Whatever the outcome, it's bound leave a sour aftertaste.

By Joan O'C. Hami in San Franc



UNCORKING A LAWSUIT: *Kendall-Jackson says its customers are "confused" by Gallo's label*

It's no secret that consumers have been slow to accept the idea that Gallo could pull off higher-quality wines

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ED BY KELLEY HOLLAND

SCO REARRANGES E FURNITURE

RICHARD MANOOGIAN asco isn't afraid to admit stake—even a $1 billion On Apr. 1, Manoogian unced Masco was selling nome furnishings busi- for $1.1 billion to a ıp of investors that des Citibank. The deal ads a blue-chip collec- of brand names including redon, Drexel Heritage, Lexington—"the best ds in the industry," says oogian. With the sale, o can refocus on building ucts and plumbing oper- ıs. But Manoogian, who engineered hundreds of isitions at Masco and its r company MascoTech, ready to put away his checkbook just because he tripped on the furniture. Next on the agenda: European expansion.

MATTEL AND DISNEY: NO HARD FEELINGS

IS SOMEONE PLAYING GAMES? Just as Disney and Mattel announced a three-year licensing deal on Apr. 3, news of a former Mattel executive's suit against Mattel broke in the *Wall St. Journal*. It alleges that execs inflated financial results and improperly accounted for $17 million in royalty payments owed Disney. The SEC is investigating, but Mattel denies the charges. Sources close to Disney say it knew of the suit ahead of the toy deal and that Disney is not owed money.

INCO'S LODE OF GOOD LUCK

INCO IS POISED TO WIN THE bidding war for Diamond Fields Resources, owner of what may be the world's richest nickel deposit. No. 1 nickel producer Inco topped a Falconbridge bid for Diamond Fields on Mar. 26. Falconbridge sweetened its offer on Apr. 2. Then, the next day, Diamond Fields agreed to accept the $3.3 billion Inco bid. But the auction may not be over. Falconbridge says it remains interested in Diamond Fields and is reviewing its options.

ANSEL ADAMS FOR WINDOWS

ANSEL ADAMS IS JOINing the Digital Age—and Microsoft's Bill Gates is the beneficiary. On Apr. 2, Corbis, a Gates-owned company out to become the world's largest depository of digital images, announced it won exclusive electronic rights to the famed photographer's works. Bill Turnage, managing trustee of Adams' works, says Gates has the resources and vision to take the Adams works "into the 21st century." In return, the trust gets higher royalties, and a Corbis pledge to spend up to $1 million, to develop a CD-ROM on Adams, due out in 1997.

A C-NOTE TOO UGLY TO COUNTERFEIT?

HIDEOUS? YOU BET. BUT THE new $100 bill, which entered circulation on Mar. 25 and has Ben Franklin off-center, hasn't prompted an outcry. "It's ugly, but if the Federal Reserve and the Treasury want to fight counterfeiting, it'll do a good job" because it's hard to copy, says James C. Benfield, director of Coin Coalition. Expect trouble, experts say, when Treasury tries to use the design for $20, $10, $5, and $1 bills by 2000. "Vendors will go bananas" if they have to remake vending machines, says Benfield.

POOR BEN: *Even $1 bills may go off-kilter*

ET CETERA . . .

- P&G is suing Amway, saying its distributors are linking P&G to satanism.
- ITT may launch a bid for Bally Entertainment.
- American is proposing to pilots a lower-paying short-haul operation.
- Awesome! Planet Hollywood is going public.

HEADLINER: RICHARD SIMMONS

METAL MAGNATE

With his 1980 purchase of Allegheny International's metals business, Allegheny Ludlum Chairman Richard Simmons made a virtue out of focus. While Allegheny International, a behemoth making everything from Sunbeam blenders to Wilkinson Sword blades, fell into bankruptcy in the late '80s, Allegheny Ludlum's stainless steel made steady profits. Now, with a $3.2 billion bid for Los Angeles' Teledyne, Simmons is ready to diversify.

The deal would make Allegheny Teledyne the world's largest specialty steel company, with revenues of $4 billion. Granted, Teledyne comes with a string of niche businesses. Simmons, 64, says he embraces the mix, but market sources predict he'll spin some off.

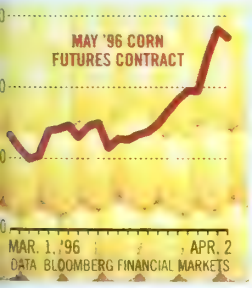
Simmons says he pursued Teledyne's metal business for a decade, but Teledyne wanted a broader deal. When WHX launched a hostile bid in January, Simmons decided to diversify into the role of white knight—though he'll share control with Teledyne CEO William Rutledge. Time will tell if Simmons' mettle for metal pays off.

By Stephen Baker

CLOSING BELL

MERRY POPPINS

only spring, but corn ady is high at the Chica- Board of Trade. May corn tracts closed at $4.14 a hel on Apr. 2, up from 87 on Mar. 1. Evidence is unting that higher prices e failed to stem demand. nestic markets crave corn up, animal feed, and the , and exports continue to m. Prices could go higher l. "At a certain level, live- ck will be killed and new d will be brought into cul- ation, but we're not there ," says Goldman Sachs alyst Steve Strongin.



HOW REPORTER GEORGE LACY CRACKED

A TOP STORY OVER BACON AND EGGS

6:14 A.M.

Little sleep makes for a big appetite. After a full night chasing rumors regarding sale of the city's baseball te an unfamiliar source deliv even more hearsay.

6:48 A.M.

Another page reveals the na of a certain millionaire wit a reputation for playing hardball. It's time for some major-league snooping.

2:07 P.M.

The trail turns cold until th arrival of a hot new tip on pager. A secret meeting at small airport ends with handshakes on the runway Looks like this multi-millio dollar rumor is right on the money.

6:02 P.M.

The story leads at six o'cloc making tomorrow's press conference old news. And reporter the talk of the tow

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TED BY DOUGLAS HARBRECHT

AN CLINTON KEEP CATHOLICS N HIS FOLD?

hen President Clinton sought a site for a Mar. 23 speech on Corporate America's obligation to ease workers' economic insecurity, it was no accident that he picked ier University, a Jesuit college in Cincinnati. His address aimed at the boardroom, but its theme of enlightened ecoic activism reflected the Catholic tradition of social justice. s Clinton has learned, such moralizing is a political plus. nation's 60 million Catholics represent 30% of the electe, and they are a volatile voting bloc. They helped Clinton ome President in 1992, only to then fuel the GOP Revolution 994. Clinton's ability to lure working-class and suburban holics from George Bush was vital to 92 victory. Among Catholics, Clinton Bush 44% to 35%, helping tip key es such as Ohio, Wisconsin, Pennsylia, and Michigan to the Democrats. or Clinton, it's imperative to return t Catholics to their traditional home he party of FDR and JFK. So far, his rtship appears to be working. In a . 26 poll by the Pew Research Center the People & the Press, he led GOP l Bob Dole 49% to 44% among holics. In Rust Belt states where holics are concentrated—from Connecticut to Wisconsin—ton tops Dole by margins of 8% to 14%.

MAKING A POINT: *President and Pontiff*

GET PRACTICE. Despite his support for abortion rights, tist Clinton "is in a position to have the highest Catholic port since the '60s," concludes Virginia Tech political scist Glenn Richardson. Even Dole strategists concede the sident's edge. "We have got to do a better job of making positions known to this constituency," says Dole adviser ald J. Devine. "We haven't done this yet."

ne reason: Dole spent the winter wooing the fundamentalist testants who dominated early primaries. Clinton, meanle, skillfully targeted each of the diverse Catholic conencies. For Irish Catholics, he helped speed the reconciliation in Northern Ireland and welcomed Sinn Fein leader Gerry Adams to the U.S. For Polish-Americans, Clinton pushed programs to rebuild Poland's market economy. He reminds Mexican-Americans that the White House fought draconian immigration curbs. And Clinton frequently stresses admiration for Mother Teresa and for his Jesuit education.

Clinton also has co-opted the GOP's social message. In his State of the Union speech, he trumpeted individual responsibility, crime-fighting measures, and support for school uniforms—all top issues to at least 67% of Catholic voters, according to the Roper Center for Public Opinion Research. "Clinton has done a very good job appropriating the Republicans' values language," says Shaun A. Casey, a Harvard University researcher.

Not that Midwestern Methodist Dole is a turnoff for Catholics. His war record, anti-abortion stance, and support for family tax credits and school vouchers resonate with the majority of Catholics who consider themselves social conservatives. But so far, says a GOP Catholic scholar, "Dole just hasn't caught on."

Still, Republicans are encouraged that in the '94 midterm elections, 52% of Catholics backed GOP candidates—a first. Dole aides plan to hype Clinton's decision to veto a GOP bill that would outlaw some late-term abortions. Dole's ultimate gambit is his running mate: His list is dominated by Catholics, including Governors John Engler of Michigan, George V. Voinovich of Ohio, and Tommy Thompson of Wisconsin and California Attorney General Daniel E. Lungren.

Ultimately, Dole hopes to win Catholics by turning November's election into a referendum on character, contrasting Clinton's pious rhetoric with a record of ethical lapses. Given Clinton's savvy—and Bush's failure with that tack in '92—the strategy may be less a hope than a prayer.

By Lee Walczak and Richard S. Dunham

CAPITAL WRAPUP

RAVY TRAIN?

Federal Transit Administrator Gorn Linton is under fire from his ency's own Inspector General for legedly misspending government nds. The charge: Instead of returng to the Treasury some $73 million rmarked for a failed Chicago lightil project, he gave part of the cash to ttsburgh and Baltimore. GOP lawakers on Capitol Hill, who grouse at Linton was currying favor in emocratic strongholds, want a Juse Dept. probe. Linton says the spat stems from differing legal interpretations of transit spending rules.

TIME WARNER-TURNER TIE-UP

▶ The Federal Trade Commission will finish its antitrust review of Time Warner Inc.'s $7.5 billion acquisition of Turner Broadcasting System Inc. in early June, industry sources say. Federal trustbusters have been taking a hard look at the proposed deal, and some modifications are likely. One possibility: divestiture of Turner and Time Warner cable programming in overlapping markets.

KEYSTONE STATE CAPTAIN

▶ With the 1996 election coming into focus, President Clinton has started recruiting reelection strategists. One high on the White House list: Anthony T. Podesta, who has been asked to head operations in the swing state of Pennsylvania. Podesta, co-founder of Hollywood-backed People for the American Way and a top adviser in Clinton's '92 California effort, runs a telecom lobbying firm that represents such giants as Capital Cities/ABC, CBS, Digital, MCI, and Silicon Graphics.

Otis Carrier Pratt & Whitney Sikors

emerging markets, it's smarter to:

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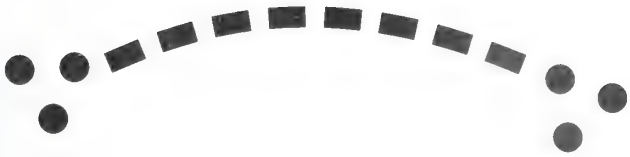

Leap.

Letting the competition get the jump on opportunities can ultimately flatten you.

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JAPAN

TIME TO MAKE NICE

Clinton and Hashimoto agree to agree

The meeting could have been the most fateful trade showdown between the U.S. and Japan in years. An American President who came into office emphasizing U.S. economic interests visits the troublesome trading partner as he heads into a reelection battle. A no-nonsense stance on narrowing the U.S. trade deficit might win votes in November. Meanwhile, Japan's Prime Minister, a tough former trade negotiator, signals his government isn't going to give ground on key disputes. The stage is set for conflict.

Don't bet on it. When President Clinton meets with Prime Minister Ryutaro Hashimoto in Tokyo on Apr. 16-17, he won't be wielding anything like the big stick—a kendo practice sword—that U.S. Trade Representative Mickey Kantor gave then-Trade Minister Hashimoto last year during bitter auto talks in Geneva.

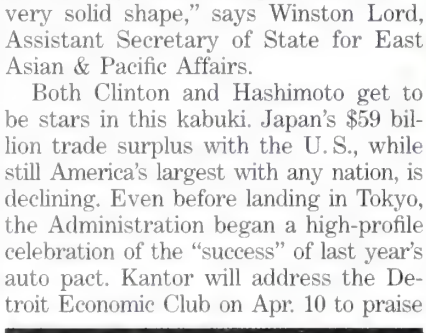
Instead, Clinton and Hashimoto will stick to what they can agree on. Handlers will attempt to create a "Bill-Ryu" relationship reminiscent of the famous "Ron-Yasu" friendship between President Reagan and Prime Minister Yasuhiro Nakasone. Clinton and Hashimoto began rehearsing at a meeting in Santa Monica, Calif., in February.

Trade warriors no more? Clinton came into office as a trade lion, but tensions between China and Taiwan and between North Korea and South Korea have helped turn the Administration into a trade lamb, and the security alliance with Tokyo has taken center stage. The Pentagon, in particular, sees U.S.-Japanese ties as crucial to deterring Chinese military pressure on Taiwan and guaranteeing stability on the Korean peninsula.

So Clinton will agree to modest steps such as noise and pollution abatement at U.S. bases to appease Okinawans, who are outraged by the rape of a 12-year-old girl by three American GIs—but no reduction in the total of 47,000 troops in Japan. In turn, Hashimoto will reaffirm Japan's commitment to the alliance. Also expected: deals to jointly produce a new jet fighter and to share logistical support for ships and planes.

UNCHALLENGED. But the U.S. won't press Japan to pay more than the $5.5 billion it already pays to support the U.S. military presence. And ambiguity over whether Japan would let the U.S. use its Japanese bases in the event of regional conflicts will remain unchallenged. "U.S.-Japan relations as a whole, and security relations in particular, are in very solid shape," says Winston Lord, Assistant Secretary of State for East Asian & Pacific Affairs.

Both Clinton and Hashimoto get to be stars in this kabuki. Japan's $59 billion trade surplus with the U.S., while still America's largest with any nation, is declining. Even before landing in Tokyo, the Administration began a high-profile celebration of the "success" of last year's auto pact. Kantor will address the Detroit Economic Club on Apr. 10 to praise



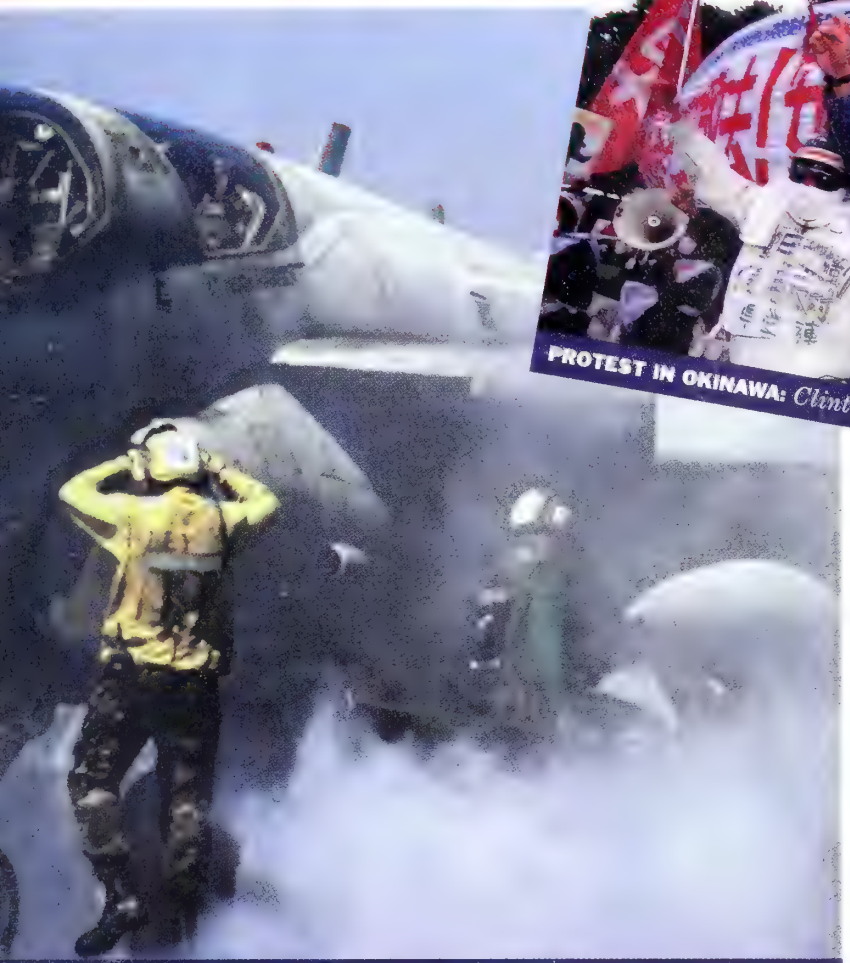
TETE A TETE: *The two leaders met in February to rehearse*

ON DECK AT THE U.S.S. INDEPE

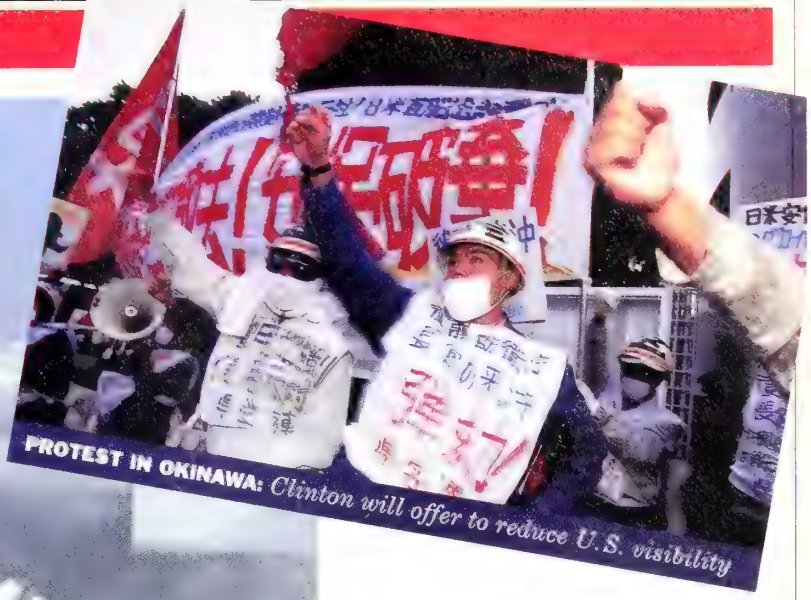
it, and Clinton will hail it during a
to a Chrysler Corp. plant in Ohio
Apr. 11. In fact, progress has been m
slower and more modest than either
admit. Only 30 Japanese dealers h
signed up to distribute U.S.-made
since the accord was inked last J
industry sources say. That suggest
will be hard to reach the U.S. targe
200 new dealerships per year.

For his own domestic audience, H
imoto fulfills a pledge to strengthen
U.S.-Japan relationship while maint
ing his tough stance on trade. A you
er generation of Japanese leaders
their 50s, like the Elvis-sideburn
Hashimoto, are increasingly confiden
their economy clicks into recovery
the long-depressed Nikkei stock a
age rises above 21,000. If Hashimoto
work out an agreement to reduce the
trusiveness of U.S. military force
the daily lives of average Japanese
will reap further political gains as a le
er who can manage the Marines.

Japan's tougher stance on trad
coming in part from bureaucrats at
Ministry of International Trade &



noto campaigned on a pledge to strengthen the U.S.-Japan alliance



PROTEST IN OKINAWA: *Clinton will offer to reduce U.S. visibility*

Japan will get renewed defense backup without giving much on trade–and Clinton will look happy about it

stry. MITI Vice-Minister for Foreign Affairs Yoshihiro Sakamoto threw down e gauntlet during a lunch at the Foreign Correspondent's Club in Tokyo recently when he said: "The era of bilaterism is over." Implication: The Japanese n't negotiate directly with the U.S., tead referring disputes to the new orld Trade Organization.

MITI followed up on Apr. 1, when it issued an "unfair trade report" attacking ashington's request to extend an existing semiconductor pact that guarantees eign manufacturers at least 20% of e Japanese market. The government is o digging in against Eastman Kodak .'s attempt to persuade the U.S. ade Representative's office to bring ion against archrival Fuji Film (side-). There could be compromise on allowing U.S. insurers better access, and e two governments reached an air-car- agreement—but those are decidedly odest steps. "Japan is increasingly taking the stance that 'we don't want to k; this is beyond our reach.' It's very ious," confides a U.S. official in Tokyo. Why aren't the Americans battering on the stone walls? Aside from security concerns, Administration heavies such as Treasury Secretary Robert E. Rubin fear instability in financial markets if major trade flaps break out. Particularly in an election year, the Clintonites want a benign economic climate. Keeping the dollar aloft and the yen from rising are key. Reason: A dollar implosion could savage the U.S. bond market and knock stocks for a loop.

IDLE THREATS. But there's no escaping the fact that the U.S. just doesn't have the clout it once did. When the U.S. blinked on auto sanctions last year, it damaged one of the most effective trade-dispute weapons in its arsenal, Section 301 of the Trade Law. Although the Administration claimed a sweeping victory at the time, the Japanese gave very little. "No one believes us anymore. The U.S. has no credibility in this town," grumbles one U.S. executive in Tokyo.

That leaves Clinton with an approach to Japan resembling those of George Bush and Ronald Reagan—stress the security and financial links, but walk softly on trade. Like earlier Administrations, Clinton's strategists reject the notion of using U.S. security clout as a bargaining chip to win economic concessions. Japan's political Establishment thus has the best of all possible worlds—firm U.S. promises to support Japan against any military threats at the same time that trade is on the back burner.

Although Washington's trade hawks are quiet, the Pentagon is pleased that China's saber-rattling and wider Asian concern about America's commitment to the region have revitalized U.S. security ties with Japan. "The Chinese have obliged us very nicely," says one Defense Dept. official. In the Defense Dept.'s eyes, the U.S. is reasserting military leadership and discouraging Japan from distancing itself from the U.S., a well-placed defense intelligence source says. "We want to go on writing Japanese security policy," says the source.

One of the dangers of Clinton's security-oriented visit, though, is the antagonism it could arouse in Beijing. In their communiqué, Clinton and Hashimoto are debating whether to say something jointly about China. Clinton wants to make

the point to his home audience and Asia that "the U.S. isn't going to be successful in dealing with China unless it has a strong relationship with Japan," an Administration official says. The President also plans to stage an event aboard the aircraft carrier U.S.S. Independence, which was deployed near Taiwan. All of this could fuel China's perception that the U.S. and Japan are cooperating against it. So handlers may go with a non-militaristic image of the two men and their wives in any official photo ops.

White House political advisers, meanwhile, argue that Clinton can soft-pedal trade issues with Japan since Democrats, even trade hard-liners, are reluctant to embarrass their President in an election year. Fortunately for him and them, China looms as the new trade behemoth.

The upshot is that the summit will celebrate the status quo. The security arrangement will be adjusted but not substantially changed. On trade, the governments will focus on areas where th can announce progress, downplaying ir tants. Clinton will get a boost political and Hashimoto will get to rise abo ugly domestic squabbles and look like world leader, something crucial to Jap nese pride. In kabuki, it's all form and r ual. In this Bill-Ryu show, both leade come out winners.

By Edith Hill Updike in Tokyo, a Amy Borrus and Stan Crock Washington

KODAK VS. FUJI: WHAT'S WRONG WITH THIS PICTURE?

Rarely do trade cases look as open-and-shut as the complaint filed by Eastman Kodak Co. last May. Alleging unfair trade practices by Fuji Photo Film Co., Kodak petitioned U.S. Trade Representative Mickey Kantor with a 250-page report complaining, in mind-numbing detail, about collusion to limit its access to Japan's $15 billion consumer film market. Leading the way for Kodak was Chief Executive George M.C. Fisher, who had opened Japan's market for pagers and cellular telephones a decade ago as head of Motorola Inc.

Today, Kodak's case is adrift, caught in the changing currents of U.S.-Japan relations during a Presidential election year. Despite repeated requests for talks, U.S. officials can't even get their Japanese counterparts to come to the bargaining table. With the USTR slated to wrap up its case probe by July 3, Tokyo scoffs at the notion that the Clinton Administration will impose sanctions. Clintonites concede there's not much they can do. "Everybody's frustrated," says a U.S. trade official.

COUNTERASSAULT. What went wrong? For starters, bad timing. When Kodak filed its case, the U.S. and Japan were locked in a bitter trade dispute. Washington was set to [illegible] billion in sanctions on Japanese luxury cars if talks broke down. Kodak doubted that Tokyo would risk another ugly fight just for Fuji. But President Clinton ultimately agreed to an auto deal that extracted few concessions. Instead of softening up, Japanese bureaucrats grew convinced that any threat of sanctions was a bluff.

An aggressive counterassault by Fuji, meanwhile, has planted doubts about Kodak's claims. "Kodak has concocted a conspiracy theory of indirect control that supposedly explains its own poor performance in Japan," says Fuji lawyer Bill Barringer. In a 585-page rebuttal, Fuji denies it bars its wholesalers from dealing with other suppliers. "Kodak had $1 billion in sales in Japan last year," says a Fuji spokesman. "How can they complain the market is closed?"

FISHER: *"Japan has called [U.S. resolve] into question"*

Fisher argues that Kodak's case has significance beyond film. "Japan has called into question the resolve of the U.S. government" to address nontariff barriers not covered by global trade rules, he told a House panel on Mar. 28. Kodak has rustled up dozens of letters to Clinton from Congressional leaders ranging from Senate Majority Leader Bob Dole (R-Kan.) to House Minority Leader Richard A. Gephardt.

Trouble is, bipartisan solidarity may not be enough. Clinton already has enough success stories to trot out on the campaign stump, such as increasing U.S. exports to Japan and a shrinking trade deficit. Many trade hands expect Hashimoto to politely but firmly decline Clinton's entreaties to negotiate Kodak's claims.

If that happens, the Administration is likely to take the case to the World Trade Organization (WTO) and drop the sanctions threat. That won't please Kodak. Fisher wants to steer clear of the trade tribunal because U.S. leverage there is untested and its rules bar unilateral retaliation. Says Greg Mastel, senior fellow at the Economic Strategy Institute in Washington: "The threat of sanctions is not as credible as in pre-WTO days."

All the while, Kodak's team of trade and legal experts at the Washington law firm of Dewey Ballantine will continue to mine Japanese official documents for evidence that strengthens the company's case.

"It's like an archaeological dig in Troy," says Dewey Ballantine partner Alan W. Wolff. "You keep going through layers and saying: 'Look at that.'" Problem is, this case may be a relic of a bygone age.

By Amy Borrus in Washington, with Edith Hill Updike in Tokyo

ONY BLAIR'S LABOR PARTY: ' LEAST IT LOOKS NEW

promises not to undo Thatcherism, but some have doubts

e final countdown has begun in Tony Blair's oak-paneled sanctuary n the House of Commons. The sh Labor Leader is ready to face voters, and he is confident he will He has spent two years modernizparty that had drifted so far left it our consecutive elections and much working-class following. He sevties with trade unions and swore Big Government. ly, he offers a vi- of a stakeholder omy, a centrist ap- ch that embraces markets but also nds a hand to left in the global omy's backwash. re ready to go," lls a visitor. And ashes that grin—a ny smile that ns supporters and ms enemies. hile waiting for e Minister John r to set the elec- date, Blair trav- o New York and hington on Apr. 3 to meet with business and po- l leaders, includ- is political model, ident Clinton. "It's rtant that British le see him being n seriously overseas," says Blair's s secretary, Alastair Campbell.

PERATE? Blair's trip is also part of a paign to reassure U. S. investors the currency markets that he won't rse changes brought about by 17 s of Conservative government, first r Margaret Thatcher and now John r. He'll pledge not to raise person- corporate taxes, not to renational- industries, and not to let labor ns run the country.

air hopes to convince overseas busi- and domestic voters that he's not ny Tony," engineering Labor's con- ion just to win the election. Still, ing doubts remain. British business ers, small-business owners, U. S. ex- ives, and many ordinary voters say aren't yet convinced. Blair still has k to do.

He should get along well with Clinton. They have many similarities. Both are young (Blair 43, Clinton 49), moderate politicians. Neither fits neatly in his party's mold, with talk of downsizing government, firing bad teachers, and forcing welfare recipients to work or get training. Both think the route to a competitive economy is by focusing on "human capital" issues. And both are married to ambitious lawyers. Blair's wife, Cherie, is a Queen's Counsel, the highest rank a barrister can attain.

HOW BLAIR VIEWS KEY BUSINESS ISSUES

- May offer legislation requiring companies to balance interests of shareholders with other "stakeholders" when making decisions
- May seek to restrict hostile bids by making the acquiring company say how its bid is in the public interest
- Will offer a national minimum wage, but won't say at what level
- Pledges not to raise the 40% top rate on personal income tax and the 25% top corporate tax rate
- May bring Britain into the single currency in 1999, if he believes EU economies have really converged

DATA: BUSINESS WEEK

Blair might have to wait another year for Major to call an election. But on Apr. 11, a special election to replace a deceased Member of Parliament is likely to trim Major's majority to one. He may be forced to call an election this fall, or sooner. No matter when, says Clive Hollick, CEO of United News & Media PLC, a publisher and financial-services company, "I think Blair's going to win. The present government is showing a remarkable lack of leadership."

If so, Blair will have risen from obscurity to international prominence in just two years. He was born in Scotland in 1953. Young Blair went to boarding school in Edinburgh and then to Oxford University, where he received his law degree but was best known as the long-haired lead singer in the Ugly Rumours rock band.

Along with Clinton, Blair has also carefully studied Margaret Thatcher. He is putting together a manifesto modeled after her 1979 *Conservative Manifesto*, which helped her unseat the last Labor government. Like her, he has only a handful of post-election priorities: improve the education system, reform welfare, create job-training programs to run jointly with industry, and move Britain closer to Europe.

The trouble is that while business executives find Blair personally attractive, the vagueness of his policies worries them. But he's trying hard to convince them. One recent bitterly cold day, he and an aide hopped the 7:15 a.m. train to Leeds to address the local Chamber of Commerce. Blair pledged a stable economic environment to encourage enterprise and wealth creation. And while he favors a minimum wage and other Labor proposals, he vowed not to bind business in red tape. "We genuinely want to get these things right," he beseeched.

The response was lukewarm. "Well, he's changed the party's image a lot, but we're not completely convinced it's permanent," says C. Edward Holroyd, the Leeds Chamber of Commerce president.

Still, after 17 years of sometimes erratic Tory rule, Blair's ideas are resonating with voters worried about job security, slow-rising wages, and social decay. "The government I want to lead believes free markets and looking after society are not incompatible," he says. His timing is impeccable, with the pressures of a global economy weighing on British minds.

Now, it's up to the voters to decide if they will embrace Blair's kinder, gentler stakeholder approach. "We've been through the laissez-faire master-and-servant approach, and it didn't work," asserts Blair. Adam Greaves, 33, a litigator at a London law firm, agrees. A recent Labor convert, Greaves says: "Tony Blair is fresh air. He comes across as a kind, considerate man, and he attracts the young vote." Blair hopes a lot of others agree when the big vote finally comes.

By Paula Dwyer in London

"Wouldn't it be nice if the wondrous, futuristic,

virt

world of the Internet was just a little less, well, virtual?"

UPDATE

Something magical is happening to our planet. It's getting smaller. Every day, more people and more information are making the Internet a place of incredible opportunity and transformation.

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[illegible] the next few months, we're going to [illegible] strategies and technologies to help you get from here to there. Let's start by talking abo[illegible] what's going on across the planet.

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EUROPE

MERGER FEVER FINALLY SPREADS TO EUROPE

Companies can no longer hold off global pressures

The urge to merge has always been muted in Europe. Most U.S. companies accept the pain of mergers as a way to boost their competitive clout. In Europe, though, many players in banking, airlines, autos, and other industries have avoided mergers and contented themselves instead with local markets and so-so earnings—or even losses. Certainly, European executives have seen their companies lose their competitive edge in the growing global economy. Yet doing something about it by stalking a rival or succumbing to a buyout has seemed somehow uncivil. Mergers have been an option, but an unlikely one.

Now the option is looking more like stark necessity. One European company after another is putting up billions in stock or cash to acquire a competitor or is accepting an outside bid itself. In March, giant drugmakers Ciba-Geigy and Sandoz Ltd. teamed up. In April, British Telecommunications PLC and Cable & Wireless PLC, once sworn enemies, stunned the industry with news of a possible merger. On Apr. 2, German media giant Bertelsmann announced it would merge its radio and television [illegible] with those of Luxembourg broadcaster CLT (page 65). In the first quarter of 1996, the value of merger activity in Europe jumped 22% from a year ago, to $71 billion, according to IFR Securities Data Co.

Suddenly, Europe's age of consolidation seems at hand. Even the Old World's ablest companies can't grow in their home markets, and they're increasingly fearful of Asian and American rivals carving up world markets. Although Europe's jingoistic governments will undoubtedly thwart the merger movement now and then, global pressures for industrial efficiency are becoming too strong even for bureaucrats to withstand. What's more, the European economy is too dependent on a high-cost manufacturing sector that needs heavy restructuring. Manufacturing makes up 34% of the German economy, for example, vs. just 18% in the U.S. "Consolidation has only scratched the surface in Europe," says M. Wieland Janssens, head of European mergers and acquisitions at Salomon Brothers International PLC in London.

> At least one big car combination and a series of airline deals seem likely

No one is sure what the new shape of corporate Europe will be, although at least one giant car combination, a series of airline deals, and pl[illegible] of action in banking [illegible] pharmaceuticals seem [illegible] ly. Immense turmoil c[illegible] result. Consolidation [illegible] mean more joblessn[illegible] which could promp[illegible] populist backlash. [illegible] and Sandoz, for ex[illegible] ple, will cut 10% [illegible] their workforce.

But the press[illegible] to match global s[illegible] dards of efficienc[illegible] probably too grea[illegible] halt the process. [illegible] key factor: "There's [illegible] much capital tied up [illegible] European industry," [illegible] Goldman Sachs Eur[illegible] strategist Peter Sulli[illegible] This applies to manu[illegible] turing and finance. On a per capita[illegible] sis, Europe has 35% more bank bra[illegible] es than the U.S. Western Euro[illegible] carmakers' annual production capa[illegible] outstrips demand by some 4 million [illegible] hicles, estimates J.P. Morgan & [illegible] Much of that excess must be s[illegible] down, and the capital that's freed [illegible] must be invested in higher-growth [illegible] gions. "Every single one of us must [illegible] vest in Asia," insists Louis R. Hug[illegible] president of General Motors Co[illegible] international operations.

CATBIRD SEAT. Higher-tech indust[illegible] aren't being spared either. [illegible] megamerger of Switzerland's C[illegible] Geigy and Sandoz "really put the [illegible] among the pigeons," says Morgan S[illegible] ley & Co. analyst Markus Rös[illegible] That's because the deal showed [illegible] even high-quality pharmaceutical [illegible] ducers face intense pressures to l[illegible] costs and satisfy investor demands [illegible] higher returns.

Some companies could also fold c[illegible] pletely. The Dutch government refu[illegible] to rescue plane maker Fokker in Ma[illegible] setting the stage for a shrinking of [illegible] commuter-aircraft industry. Now p[illegible] sure is building to wean Airbus In[illegible] trie off its billions in state subsi[illegible] and turn it into a profit-making con[illegible] ny, which would have to cut costs. S[illegible] a step would not, strictly speaking [illegible] an act of consolidation. But it wo[illegible] signal a new willingness to end [illegible] state aid that has often propped up [illegible] companies that need instead to [illegible] bought out.

Such tumult is exactly what Eu[illegible] pean governments and companies h[illegible] wanted to avoid. Now, it seems, t[illegible] have no other choice.

By Bill Javetski in Paris, with P[illegible] la Dwyer and Julia Flynn in Lond[illegible] and Karen Lowry Miller and Do[illegible] Woodruff in Bonn

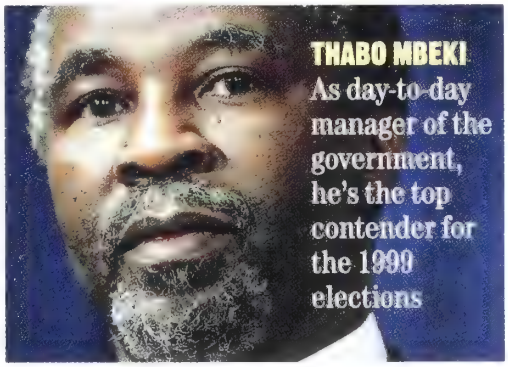
ITED BY STANLEY REED

OUTH AFRICA'S NAGGING WORRY: FTER MANDELA, WHO?

few weeks back, rumors that Nelson Mandela was in bad health helped cause such a bad case of currency jitters that the South African President checked himself into the spital. When doctors pronounced him fit for a man of 77, rand settled down for a while. Not so the anxiety about at will happen when Mandela, whose term runs for three re years, goes.

Foreign executives say this is the key question when they to sell their companies on investing in South Africa. nagers back at headquarters are less focused on South rica's 6.5% inflation rate, down from double digits during artheid rule, or the 3.3% economic owth recorded last year. "They all ow the name Mandela, but they't know who else is in the sys-n," says Constantine Vayenas, an erging-markets specialist at Union nk of Switzerland in London.

The big fear is that without Man-a at the helm, already troubling oal conflict may increase and sound icy may give way to nationaliza-n and corruption. After all, ibters say, isn't that what has hap-ned elsewhere in Africa?



THABO MBEKI As day-to-day manager of the government, he's the top contender for the 1999 elections

SING CRIME. Although Mandela runs the country only in the adest sense, his presence has a calming effect. Revered by cks, Mandela has used a message of reconciliation to win er whites, who possess most of the nation's wealth and eco-mic knowhow though they only comprise 15% of the 41 mil-n population. Whites trust Mandela—even as they pull eir children out of newly integrated schools and berate government for rising crime. That has given his govern-nt breathing room for free-market reforms aimed at ex-nding the economy to pull in blacks.

But even now, Mandela does not "sign every check," as one alyst puts it. The closest thing to a day-to-day manager is ecutive Deputy President Thabo Mbeki. He would step in Mandela were to die in office. Mandela says he won't run again—so Mbeki, 53, seems the top contender in the next presidential election, in 1999. He is also Deputy President of the African National Congress, by far the most popular party. Another possibility is ANC Secretary-General Cyril Ramaphosa, 43. Both have good relations with the mainly white corporate sector.

Still, the inevitable departure of Mandela is disquieting. Mbeki, for instance, does not enjoy Mandela's rapport with whites, partly because he has been assigned a tough-cop role. He has warned whites they will have to give up some of their privileges—something that hasn't happened yet.

Mbeki got a boost in a Mar. 28 Cabinet shuffle that gave him more responsibility. At the same time, Mandela took an important step by replacing retiring Finance Minister Chris Liebenberg, the white former banker, with an ANC figure, Trevor A. Manuel, who was Trade & Industry Minister. There was little criticism of the change, but the rand fell on rumors, denied by Manuel, that he would lift exchange controls.

Such wobbles also reflect the realization that huge problems remain. Unemployment is running 40% or more among blacks, and most lack access to adequate housing, education, and other services. If they don't see some signs of improvement by 1999, more militant leaders and strife could emerge. Even Mandela has been unable to quell violence between ANC supporters and the Inkatha movement in KwaZulu-Natal. Although that's mainly a regional problem, it could worsen without Mandela's influence.

And even the rosiest projection does not foresee huge changes by the election. The new President will no doubt be calling for more patience and sacrifice. That means whoever takes over from Mandela will need his saintlike qualities—but can't hope to be recognized as one.

By Drusilla Menaker in Johannesburg

GLOBAL WRAPUP

BERTELSMANN GETS BIGGER

Europe's hottest dealmeister is Michael Dornemann, head of German media giant Bertelsmann's entertainment business. His $6.6 billion merger of Bertelsmann's UFA subsidiary and Luxembourg's Compagnie Luxembourgeoise de Télédiffusion on Apr. 2 will create the Continent's biggest television company, with more than $4 billion in revenues. The new company, once it gains European Commission approval, will combine Bertelsmann's position in the nascent digital pay-TV market with CLT's strength in free television.

Dornemann's audacious deal, struck after just five days of negotiations, creates a company with the clout to compete with U. S. entertainment giants such as Time Warner Inc. in Europe's soon-to-be deregulated television market. The new combo will have the financial muscle that companies now need to bid for increasingly expensive sports broadcasting rights, movie libraries, and other programming.

The new deal also puts German archrival Kirch Group on the defensive in the race to dominate Europe's budding digital TV technology. Although Kirch will be first to go digital this summer, over the long term Dornemann may have a marketing edge. His pay-TV channel partnership, Premiere, already has 1.2 million subscribers.

GETTING OREGON-IZED: *Activists helped Wyden beat his GOP rival*

POLITICS

COME WINTER, A GREENER HILL?

The environment could help Democrats

Remember the spotted owl? Two years ago, Republicans used the endangered bird as a symbol of the Democratic environmental zeal that destroyed timber-industry jobs. But in 1996, a new image could profoundly damage Republican hopes of keeping control of the House: the spotted Newt.

Emboldened by a public backlash against GOP assaults on environmental laws led by House Speaker Newt Gingrich, eco-activists are readying their biggest ever get-out-the-vote effort this fall. The greens' chief targets: two dozen Republican lawmakers, many of them freshmen, who championed high-visibility moves to weaken enviro-laws.

Democrats lost many of the districts won by these Republicans in the 1994 GOP sweep, and regaining the seats is a cornerstone of their strategy to recapture the House. The White House is watching, too. President Clinton's political advisers have added the environment to a cluster of issues, including Medicare and education, they believe will have extra punch with independent and moderate Republican voters in such key electoral battlegrounds as New Jersey, California, Florida, and Michigan.

The Clinton plan is to paint presumptive GOP Presidential contender Bob Dole (R-Kan.) as an eco-enemy who, as Senate majority leader, has scored "zero" in a voting analysis by the Washington-based League of Conservation Voters. "Dole has tried to peal those protections that avera Americans have depended on to ens that the air is healthy and the wate clean," says Kathleen A. McGinty, w heads the White House Council on E vironmental Quality.

The enviros face a challenge fr business groups that back endange Republicans and frame the debate ferently: Reasonable protection of environment must be balanced agains need to cut unreasonable rules. "C members don't want to diminish p tections, but they want flexibility a cost-effectiveness," says Mary E. Be hard, manager of environmental pol at the U. S. Chamber of Commerce.

For years, bipartisan support for environment kept the issue off the litical radar screen. But that chang in 1994, when Republicans seized cont of the House and fought to weaken la protecting water, air, and wildlife. Ma in the GOP concede their leaders ha given Democrats a potent weap "There is emerging a majority ser tive to environmental consideration says Representative Sherwood Boehl (R-N. Y.), who opposes gutting eco-la

A survey last December by GOP p ster Linda DiVall found that 55% of publican voters don't support their o party on green issues. "The envir ment is one of the few areas where izens believe there is a strong role government," says Debra J. Callah president of the conservation league

TASK FORCE. Topping the enviros' list is Representative Randy J. Tate Wash.). His Puget Sound constituents mostly white-collar suburbanites—l to hike and fish, and they worry ab the survival of the state's world famo salmon. Yet Tate has voted to roll ba water-pollution regulations, relax w lands protections, and cut funding the Environmental Protection Agen "We intend to hold him to task," vo Bill Arthur, Northwest staff director

THE TOP ECO-TARGETS

Environmentalists and Democrats are rounding up to oust Republican freshmen eager to roll back environmental legislation

MONICA SEASTRAND California: Oil spills in her district launched environmental movement in '70s. In '95, she voted to roll back Clean Water Act—risky, since she won in '94 by less than 1% of vote.

RANDY TATE Washington: Voters in his Puget Sound district are independents who care about salmon population. Critics have slammed Tate for seeking clean-water waivers for paper and pulp industries.

FRED HEINEMAN North Carolina: Fast-growing district near Research Triangle usually leans Democratic. Heineman voted for huge cuts in Environmental Protection Agency, despite big EPA facility near district.

DICK CHRYSLER Michigan: His constituents won' like Chrysler's votes on clean-water and wetlands protections. Lansing and Flint suburbs worry about toxic cleanup and groundwater contamination.

e Sierra Club. Tate was unavailable r an interview.

A key Tate ally is the National Fedation of Independent Business, which sures its members that Tate has been oking for ways to protect the envinment while eliminating unnecessary gulations on small business. "The fearongering is wrong," says Carolyn ogue, director of NFIB's Washington fice. "Just because Tate votes against me regulations doesn't mean he wants blast raw sewage into Puget Sound."

VING VOTE. No wonder Logue's word. The environment starred in Januy's Oregon special election, when emocratic Representative Ron Wyden eat frozen-foods-company owner Gorn Smith for the Senate seat vacated Republican Bob Packwood. The Sier- Club and League of Conservation oters spent $250,000 for radio and TV ls attacking the environmental record Smith's company. Activists identified ,000 voters from their mailing lists as o-Wyden and made sure they voted.

The result: Liberal Wyden eked out a in by just 17,000 votes. Exit polls by yden pollster Celinda Lake found that % of Republican women voted for yden, most citing the GOP's anti-green age as a key factor. "The environent is an extraordinarily powerful ise for swing suburban voters," says yden. "Many have young children, and you're a parent, you don't want your d to drink impure water."

Environmental groups hope to replay e Wyden race in Congressional dsicts around the country this fall. Their g task: boosting voter turnout. An alysis of enviro-group members in ashington state found that only half oted in the past four federal elections; any believe it's no different elsewhere. , to build grassroots support, politilly active groups like the League of onservation Voters and the Sierra lub are networking with local organitions that in the past have only cared out community issues.

To get the vote out in November, the eague will at least double the $1 milon it spent in 1994. It'll team up with bor, consumer-rights groups, the fishg industry, and even evangelicals who pose incursions on the Endangered pecies Act. "We see an enormous servoir of new voters who have envionmental concerns," says California eague of Conservation Voters Executve Director Sam Schuchat. "They could ving any election."

Environmentalists hope their green achine pressures Congress well beond November. If so, lawmakers like andy Tate may have more time to fish d hike than they had planned.

By Susan B. Garland in Washington

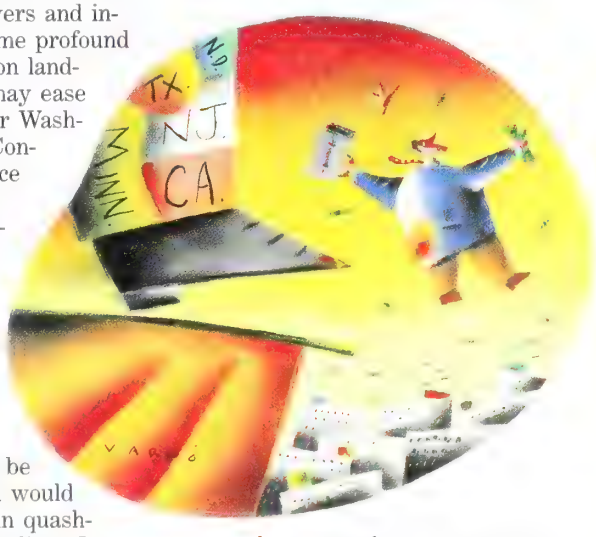
COMMENTARY

By Catherine Yang

TORT REFORM NEEDS REFORMING

Another year, another setback for tort reform. Once again, business' quest to win federal relief from tort lawyers' pesky lawsuits appears doomed. On Mar. 29, Congress gave final approval to product-liability reform legislation, but President Clinton has promised to veto the bill. His rationale: The measure will hurt consumers and gut state authority over such actions. The bill's backers doubt they can override the veto.

Business has good reason to be frustrated. But companies should stop cursing trial lawyers and instead take stock of some profound changes in the litigation landscape—changes that may ease the pain of yet another Washington defeat. While Congress has dithered since 1981 over tort reform, states have quietly enacted their own reforms covering not only products but also auto injuries, medical malpractice, and other torts. For many, the victory may already be won.



DAMAGE CONTROL. To be sure, Capitol Hill's bill would go further, especially in quashing nightmare megaverdicts. It would cap punitive damages, the often hefty sums imposed on top of actual damages to deter corporate wrongdoing. The proposed limit of $250,000 or two times compensatory damages, whichever is greater, could put an end to verdicts such as the $2.7 million jury award in 1995—later reduced to $480,000—for a woman who spilled scalding-hot McDonald's coffee on herself.

Yet the nation's governors have already enacted similar relief on a state-by-state basis. Nearly all 50 states now have some tort reform in place. Thirty-one have restricted punitive damages, and 14 of these have adopted caps. In the past year alone, Illinois, Texas, New Jersey, Indiana, and North Carolina have all enacted major changes. "Things are swinging in favor of the tort-reform advocates in the states," says Matt Sundeen, a researcher at the National Conference of State Legislatures.

Businesses still argue that they need a federal shield because state reforms offer them only patchwork protection. When more than 70% of products made in one state are sold elsewhere, for example, companies complain they roll the dice every time they sell their wares because they cannot be sure they are protected under each state's liability laws. "Crazy-quilt state reforms still can't give comfort to business," argues Victor E. Schwartz, a corporate lobbyist. That may be an overstatement, however, since recent state actions will provide business a level of security that was only dreamed of when it began the product-liability crusade 15 years ago.

Rather than waiting for federal tort reform, Corporate America may be better served fighting other battles. For instance, since 1990, requests to the federal courts to combine product-liability cases into large class actions—everything from silicone breast implants to tobacco—have doubled from the previous decade, notes Deborah Hensler, director of Rand Corp.'s Institute for Civil Justice. Addressing the growing threat of crippling class actions could well end up being more pressing than a 15-year political battle that—so far at least—has only benefited Washington lawyers.

Yang covers legal affairs for BUSINESS WEEK from Washington.

"If my six-year-old

can make

friends on the Internet

from here to

Timb

surely someone

can get the folks

in my regional offices

to work as a team."

MERGE

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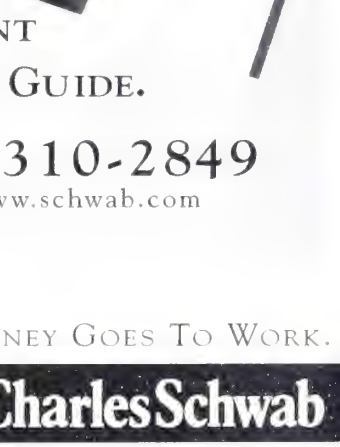

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ECTRONICS

POLAROID
The PDC-2000

IGITAL FINDS TS PHOTO OP

usiness is lighting up the market for filmless cameras

ifteen years after Sony unveiled the Mavica, the first filmless camera, digital photography may finally be ready to take off. Cams that record images on electronic ates" called charge-coupled devices Ds) instead of film are proving to be aluable new tool for handling images easily as text.

The exploding demand is coming tly from consumers but mostly from mercial markets. Real estate bros, insurance investigators, advertising ncies, mail-order houses, automotive-ign bureaus, and aircraft-maintenance ps are among the businesses snapg up digital cameras so they can of- new services, get jobs done ter, speed customer feedk—and eliminate the costs leveloping film. "We've had a enomenal response from intry, and we're finding needs didn't know existed," says frey L. Lengyel, marketing ervisor for Ricoh Corp.'s C-1 filmless design. One surse is the acceptance among tors and dentists—for docunting procedures, online contations, and dental X-rays.

ERNET-READY. The rush to p up the new digital techogy by all types of compas, from home-office busisses to major corporations, ms partly from the World de Web. Digital cameras are ential for setting up home es on the Internet, says Anny R. Gargano, a senior e-president at Sony Corp. of erica. Sometimes, filmless neras seem to be spreading nost as fast as the Internet. ital-camera sales in the U. S. s year are projected to soar tenfold, to 250,000 units. "The growth is just staggering," says Steven Blum, Sony's head of electronic photography. At this year's meeting of the Photo Marketing Assn., Blum adds, "everybody was talking about a huge consumer market. But when they got down to brass tacks, the business was all in commercial markets."

Next to film, of course, digital is puny: $200 million total, perhaps, vs. $9.5 billion. And film will remain the purists' preferred medium for many years. The only digital cameras that come close to film's quality cost as much as a new car. CCDs are very tricky to make and represent 20% to 35% of a camera's cost. The best CCDs cost thousands of dollars. Still, something significant is happening. Digital photography may be an infant, but it's a cuddly tot. The technology is sparking a mood shift not unlike the one that greeted Polaroid Corp.'s instant color photography in the 1960s. Among consumers, especially personal-computer owners who have been seduced by the World Wide Web's bouquets of graphics, digital photography provides instant gratification of their creative urges—and the fun of instantly swapping snapshots with distant friends and relatives. "It's all about Internet-ready images," says Jeffrey R. Mandell, director of business development for Epson America Inc.

JUST THE FACTS. For now, CCDs are an adjunct to film. Modestly priced CCD cameras may be just the ticket for insurance adjusters visiting accident scenes, but the graininess of their shots would be unappealing in family albums. Says Epson's Mandell: "Right now, CCDs are not a replacement for film. Film cameras are for taking pictures for memories. Digital cameras are for pictures that quickly relay information."

Last year, for example, newspapers in Vancouver and Calgary owned by Southam Inc., Canada's largest chain, chucked their film cameras and closed their darkrooms. And the Associated Press set a milestone in January. All of its photographers covering the Super Bowl used digital cameras. "The cameras really did perform quite spectacularly," says Vincent J. Alabiso, the AP's executive photo editor. So a transition is gathering momentum.

One reason, says Eric D. Edwards, Sony's digital-camera product manager, is that a wide-ranging support infrastructure "is now starting to gel in the business market." Powerful PCs, multimedia software, and fast data communications deal deftly with huge image files. And the trends are edging into the consumer market as well. As increasing numbers of people flock to the Internet for entertainment and information, says Ricoh's Lengyel, they will inevitably

G SCORE
sociated Press covered e Super Bowl digitally

want to add images to their messages. "In the long term, we see filmless as the way people will take pictures," he says.

That's why Ricoh decided not to introduce a newfangled film camera using the Advanced Photographic System (APS) technology developed jointly by Kodak, Canon, Fuji, Minolta, and Nikon. APS cameras will no doubt renew interest in film when they debut on Apr. 22. But unless sales exceed Ricoh's expectations, it will focus its research on digital photography, says Lengyel.

FUTURE CHIPS. When do camera makers expect the consumer market to mirror the explosion on the business side? "In a couple years—maybe five at the outside," predicts Sony's Blum. But that timetable could get moved up by the arrival of imaging chips produced with standard chipmaking methods. The price of these so-called CMOS imagers can be as little as one-third that of CCDs. And since the CCD represents so much of a camera's cost, camera prices could drop substantially.

EPSON
The PhotoPC

Several chip companies are pursuing this alternative, trying to convince camera makers that "filmless" doesn't necessarily mean "CCD." One CMOS booster is Vision Ltd., a Scottish startup that grew out of the 1991 development of a cheap camera-on-a-chip by Peter B. Denyer, a professor of electrical engineering at the University of Edinburgh. Vision's top-quality chip is comparable to those in consumer cameras, but Don W. Lake, manager of U.S. operations in Saratoga, Calif., says CMOS could match the best CCD resolution. "There is no limit on our technology," he says.

Digital has attracted all the name players, including Nikon, Minolta, Hasselblad, and Canon. Polaroid hopped on the CCD bandwagon in March. Its PDC-2000 produces better than merely acceptable images—but costs $3,700.

Prices will tumble—because the heart of digital photography is silicon. CCDs may be a special breed of chip, but they're still chips. Sooner rather than later, costs will drop low enough and quality will climb high enough that vacationers will be sending friends personalized picture postcards—with instant delivery and no need for a stamp.

By Otis Port in New York

CANON
The EOS-DCS3

A GOLD RUSH IN DIGITAL CAMERAS

Spurred by the popularity of the Internet and multimedia computers, digital photography is catching on among businesses and some consumers.

CAMERA CLASS AND REPRESENTATIVE MODELS	RESOLUTION (MAXIMUM PIXELS)	LENS TYPE	LIST PRICE
AGFA STUDIOCAM	16.4 million	Interchangeable	$ 9,500
DICOMED BIGSHOT*	16 million	N/A	39,900
AP/KODAK NC 2000E	1.3 million	Interchangeable	15,250
CANON-KODAK EOS-DCS 1**	6.2 million	Interchangeable	29,000
CANON-KODAK EOS-DCS 3**	1.3 million	Interchangeable	16,000
MINOLTA RD-175	1.75 million	Interchangeable	10,000
APPLE QUICKTAKE 150	307,000	Fixed	750
CASIO QV-30	307,000	2-Position	1,000
CHINON ES-3000	380,000	3x zoom	1,100
EPSON PHOTOPC	307,000	Interchangeable	600
FUJI FUJIX DS-220	307,000	2-Position	1,800
KODAK DC50	380,000	3x zoom	980
POLAROID PDC-2000	985,000	Interchangeable	3,700
RICOH RDC-1	368,000	3x zoom	1,800
SONY DKC-ID1	450,000	12x zoom	2,000

*Attachable camera back

**Kodak electronics also available with Nikon body

DATA: MANUFACTURERS

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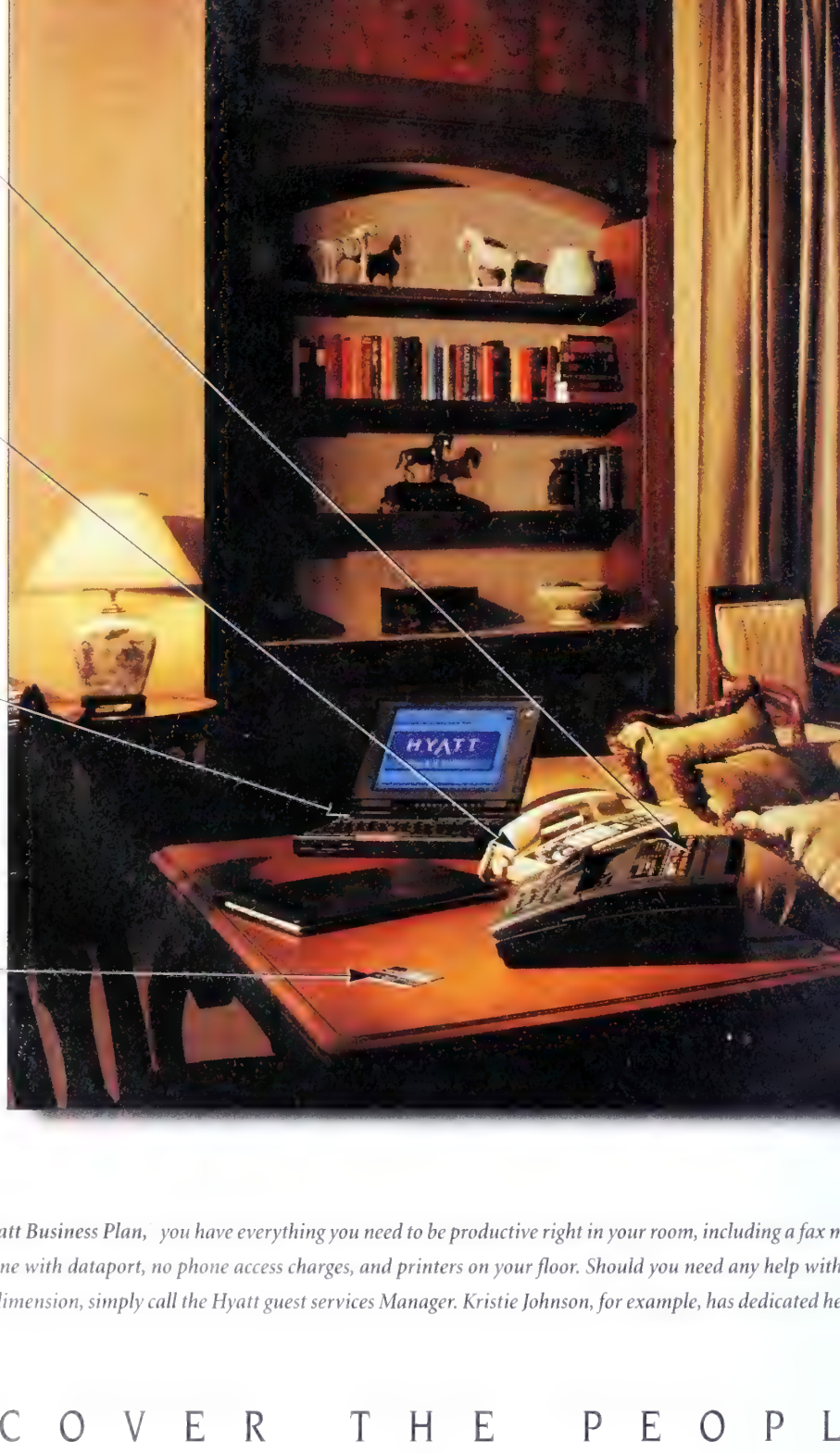

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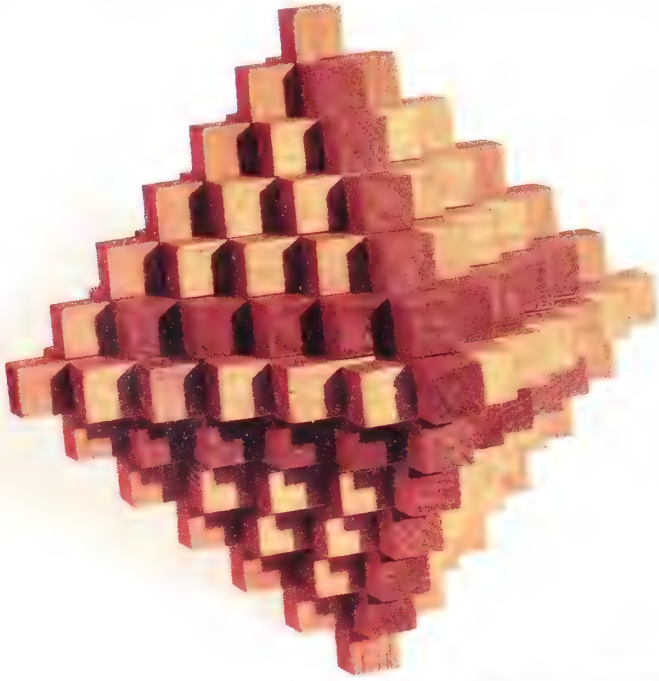

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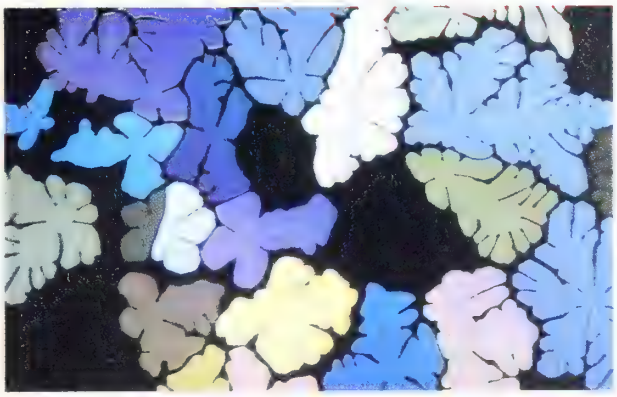
TED BY OTIS PORT

RLY WARNINGS R EPILEPTICS

R SEVERE EPILEPTIC ferers who have no a when a seizure might t occur, just crossing street can be risky. Lee M. Hively, a lear engineer at Oak lge National Laborato- envisions a day when epileptic's eyeglasses hair band could contain sensors and enough nputer smarts to deliv- a warning 15 minutes ore the onset of a zure.

Hively and a team of ee other Oak Ridge entists have filed ents on a set of soft- re algorithms that kes such predictions by lyzing the same group signals that are picked by an electroen- halograph (EEG). dying data supplied by Michael Eisenstadt, a rologist at St. Mary's medical Research Cen- in Knoxville, Tenn., vely's team confirmed lier reports from orge Washington Uni- rsity and Georgia Insti- e of Technology that zures represent a pecu-, yet orderly interrup- n of the normal "chaot- firing of the brain's rons.

Using software tools veloped to track chaotic enomena in energy-re- ed processes, Hively's stem filters out back- ound noise in EEG data used by blinking, chew-, and muscular twitch- It can then recognize otle shifts toward a zure state, such as oups of neurons begin- g to fire in unison. The m is looking for assis- nce to commercialize e system. *Neil Gross*



HOLOGRAMS ON YOUR HARD DRIVE?

REMEMBER WHEN A 40-MEGABYTE HARD DRIVE WAS standard in most personal computers? Today's drives commonly have 25 times that capacity. But in a multimedia era in which PCs are showered with voluminous files containing digitized images and sounds, even 1-gigabyte disks can fill up fast.

Researchers at Georgia Institute of Technology think they have found a technology that could vastly expand storage capacity. The key is a special type of liquid crystal (photo) similar to that in LCDs. When applied in thick coatings on a disk, the coating adds a third dimension to storage, and allows information to be recorded as holograms. Holograms offer huge capacity. The entire Library of Congress could fit onto a 3-D holographic memory system the size of a PC's monitor.

Other researchers are working on 3-D holographic storage, but Georgia Tech chemistry professor Gary B. Schuster figures that his group has an advantage: their memory is erasable. Most 3-D optical memories are "write-once" because the process of recording data permanently alters the crystal. But data written by laser on Georgia Tech's liquid crystal can easily be deleted and overwritten by changing the laser's polarity. Schuster may have found the key, but now he has to build the house—so don't look for a liquid-crystal hard drive this century. □

NEW LIFE FROM OLD TIRES– AND TAINTED OIL

TIRES IN; DIESEL FUEL AND raw materials out. An ecologist's pipe dream? No—Exxadon Technology Corp. in Ajax, Ontario, now milks fuel from old tires. It zaps the rubber with intense microwave radiation in a nitrogen-filled chamber heated to 100C—extracting fuel and carbon black, which can be used to produce new tires. Exxadon President Thomas Fairfull says tires have been made from 25%-recycled carbon black.

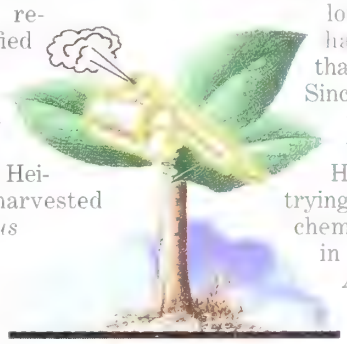
Fairfull hopes to tweak his process to make it produce more diesel fuel than it consumes. Microwave technology has other uses, too: It can reduce 1,300 pounds of hospital medical waste to 50 pounds of sterilized residue in about half a day.

Ridgewood Power Corp. in Ridgewood, N.J., doesn't use microwaves, but it also extracts fuel from waste. In a plant in South Boston, Va., the company heats contaminated oil to 80C, then adds chemicals that bond with the impurities so they can be removed. Some of the cleaned oil is used to run the recovery plant while the remainder is used to generate electricity that's sold to the local utility. *Peter Coy*

A "TRASH TREE" THAT CAN TRASH WEEDS

THIS TREE HAS A BARK THAT really bites. *Ailanthus altissima*, a "trash tree" that regularly sprouts in sidewalk cracks and vacant city lots, doesn't like to be crowded. So it defends its turf by producing, in its roots and bark, a chemical named ailanthone, which is deadly to other plants. In fact, the toxin is as effective a weed killer as most commercial herbicides, says Rod M. Heisey, an associate professor of biology at Pennsylvania State University who recently identified ailanthone.

"Ailanthone is environmentally friendly," says Heisey. When harvested from *Ailanthus* trees and sprayed on weeds, the chemical knocks them out in 12 hours—then decomposes within four days. Commercial herbicides often linger much longer and can harm animals that ingest them. Since the toxin is very difficult to synthesize, Heisey is now trying to interest a chemical company in establishing *Ailanthus* tree farms. *David Graham*



Cover Story

THE ONLINE WORLD OF STEVE CASE

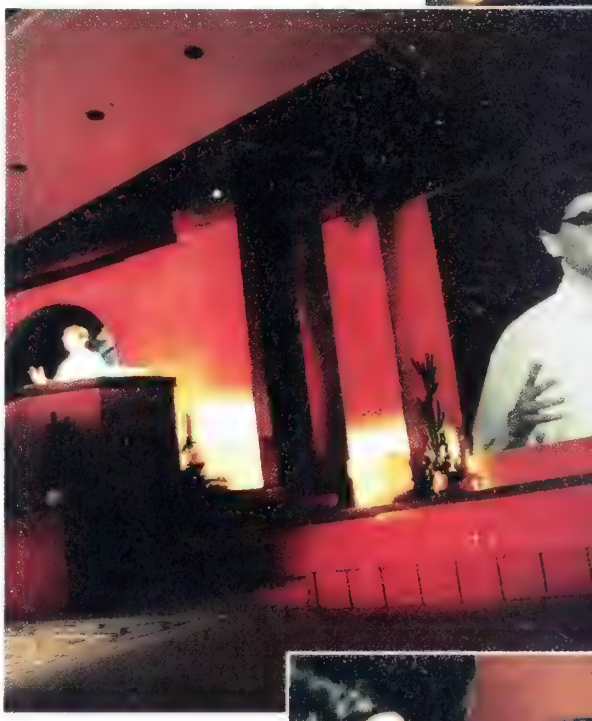
So far, he has beaten all the odds. Can he keep America Online on top?

Dressed in trademark khakis and open-collar shirt, Steven M. Case is the star attraction at the PC Forum. This annual March gathering of the digital elite, held at a resort near Tucson, is a combination of a three-day free-form think tank and schmooze-athon where the latest trends are dissected and, in the corridors or on the golf course, deals are hatched. The first time Case attended, a decade ago, he was an unknown 27-year-old entrepreneur pushing a chat service for owners of Commodore computers. He was, he recalls, lost in a crowd obsessing over which microprocessor would dominate. "I felt like I was from another planet."

Now, everybody wants to be on Case's planet. The ballroom is packed when he gives his opening-day speech, and wherever he appears, a knot of reporters, industry heavyweights, and wannabes gather. At this moment in high-tech history, Case is the man whose opinion is sought, the person everyone wants to make a deal with.

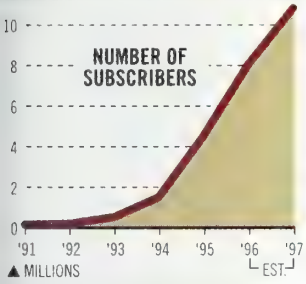
For it is Case's America Online Inc. that has shown how to turn a community of cybernauts into a mass market and how to successfully turn a computer network into a new medium for entertainment and news. With more than 5 million customers and 75,000 more joining every week, AOL is the most potent force in cyberspace.

So powerful, in fact, that the two greatest forces in computers and communications—Microsoft Corp. and AT&T—have handed Case lucrative deals aimed at boosting their own cyber plans. In exchange for pushing Microsoft's Internet browser software to AOL's millions, Microsoft has made an unprecedented concession: to bundle AOL software with every copy of Windows 95. Under an agreement with AT&T, the



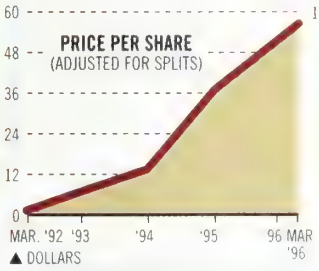
SCENES FROM TUCSON Case chatting with commentator and online convert Michael Kinsley at the '96 PC Forum, top, addressing the online faithful, on the schmooze

AS THE RANKS OF SUBSCRIBERS HAVE GROWN...



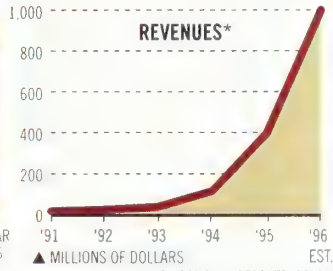
DATA: SIMBA TECHNOLOGIES

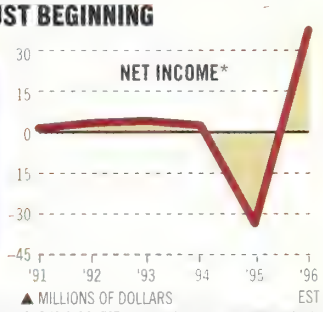
...AOL'S STOCK HAS SOARED...



DATA: BLOOMBERG FINANCIAL MARKETS

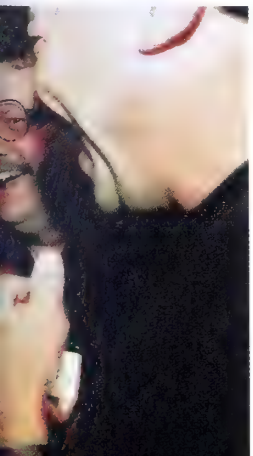
...BUT THE EARNINGS PAYOFF IS JUST BEGINNING





DATA: COMPANY REPORTS, GOLDMAN, SACHS & CO. EST. *FISCAL YEAR ENDS JUNE 30

phone giant will provide a link to AOL from its new WorldNet service. That gives AOL an in with 80 million AT&T customers being offered WorldNet on a free trial. (Rivals Prodigy Services Co. and CompuServe Inc. quickly announced they are negotiating similar deals with Microsoft, and CompuServe on Mar. 3 signed a deal with WorldNet.)



"He's done a masterful job. Steve Case walks on water as far as I am concerned," says Roger B. McNamee, a general partner with Integral Capital Partners, a venture-capital firm. Indeed, given all the experts and rivals who have predicted AOL's great fall, its continuing rise is sort of a miracle. Ever since 1993, when the company launched the bold drive for market share that has brought it to this point, naysayers have predicted that Case would falter and AOL spin out of control.

There has been plenty of reason to believe the forecasts of doom. After flooding the mails with diskettes and offers of free trials—luring hundreds of thousands of consumers—AOL found its network was often overloaded, inspiring the sobriquet "America On Hold." Short-sellers suggested that, by using aggressive accounting methods to allocate the costs of acquiring customers, AOL intentionally overstated its earnings to boost its stock (table). Then, there was the growing threat from Microsoft, which planned its own online service.

WHITE FLAG. The biggest cloud over AOL—and the one that looms largest today—has been the Internet. With the World Wide Web giving "content providers" a way to reach millions of consumers directly, who would need AOL? Consultants Forrester Research predicted in 1995 that new subscriptions for AOL would have slowed to a crawl by now as consumers jumped to the Net.

Wrong. Up to this point, at least, Case has consistently con-

founded the critics. The Microsoft Network was no barn-burner, which the AOL deal tacitly acklowledged. To silence the busy signals and keep customers online, Case paid $35 million for his own data-network. Following a review by the Securities & Exchange Commission, the company modified its accounting methods—although the shorts say the way it keeps its books still creates a potential earnings time bomb. And instead of running from the Web, Case has embraced it. AOL now generates 30% of all Web traffic, according to Find/SVP, a market researcher. AOL's Internet-only service, Global Network Navigator is a hit, attracting 100,000 subscribers since last fall.

INSTILLING ORDER "My job is to make sure the mass stampede is managed and orchestrated"

—WILLIAM RAZZOUK

BIG GAMBLE. "Every time people ask, 'How is he going to survive?' he makes the right moves," says Gordon Bridge, chairman of Internet software maker Connect Inc. and a former AT&T executive. Adds Alexander M. Haig Jr., a longtime AOL director: "If you look at how this young fella has positioned this company, he has ventures with every big player in the business. Instead of being beaten to death by Microsoft, as everyone predicted, they came courting him."

No wonder AOL is one of the hottest—and most controversial—plays on Wall Street. Its shares are in the mid-50s, a thirtyfold leap from the March, 1992, public offering price of

A surgi

$1.84, adjusted for th splits and despite two ondary offerings. AOL ca a staggering $5 billion v ation—132 times estim fiscal 1996 earnings of million and five times mated revenues of $1 bil That gives Case, 37, a per fortune of $165 mil More important, the b ant shares have given A cheap source of funds to technology and content.

Still, Case is runnin high-wire act. The whole up depends on contin rapid growth: A slowd in subscriber sign-ups price war that drives d per-subscriber revenue worst of all, a loss of scribers could spell real t ble. Right now, AOL is pu out the stops to bring in members and hit its goal of 10 million by 1 It's getting costlier to and keep subscribers. company added 1.8 millio the December quarter, lost 950,000, making net additions 880,000. The true cos landing a newbie is now $93, more than double the $45 AOL executives cite, figures Cowen & Co.

That adds up to a huge gamble. The company, which just $132 million in cash at the end of last quarter, saw its ferred subscriber acquisition costs surge to $189 million f $58 million the previous December. Also, although AOL expenses costs such as advertising, it still treats as capital penses items such as producing sign-up diskettes. But, b on projections that customers will stay on for an averag 42 months, the company has extended the period over w it pays off those costs—to 24 months. If growth slows, t deferred costs could erase future earnings.

As if that weren't enough to balance, Case is also bra ing out in all directions. He's adding business-oriented serv to generate daytime traffic and launching a European work. And, he's still dealing with the results of nine acq

The Online Lineup

AMERICA ONLINE

Aggressive marketing and lots of content made AOL the No. 1 online player. The plan: keep boosting market share, both on its own and through its deals with other distributors like AT&T. AOL is pushing into Internet access with GNN. But for now, the bet is that most consumers will want to stick with AOL's brand-name content rather than roam the Web.

COMPUSERVE

For years the leading online service, CompuServe watched AOL create a mass market and pass it in membership. Now, it's fighting back with a service for newbies called WOW!. Parent H&R Block is planning to spin off CompuServe in a public offering, perhaps giving the company a high-flying stock with which to buy content and technology companies.

INTERNET ACC PROVIDERS

Telcos such as AT&T MCI are the latest to the ranks of compan offering flat-rate acc the Net—including f yearlong trials. Coul off a price war, hurti online services, whic money by charging f incremental hours or a monthly fee.

k gives Case the funds he needs to buy new technology

s made over the last three 's—many of which have yet show signs of paying off le, page 82). Meanwhile, AOL ior Vice-President Theodore Leonsis is constantly wheel- and dealing for fresh content ge 87). "You have to ask at t price are they getting this wth?" says David M. Simons, naging director of Digital eo Investments, an invest- t research firm.

Vhatever the price, at this t in the industry's develop- t, Case thinks it's essential AOL to get as big as possible. t's in sharp contrast to a sce- o that the techno-pundits are ning. They're now talking of aggregation," an inelegant thful that means instead of ing a single package—con- , network access, billing, and on—from one supplier, con- ers will shop around. They'll network access from the ne company at cut-rate prices content à la carte—from Web s or from services such as . "Disaggregation theory im- liately blows up the model of prietary online services," says n Petrillo, executive vice-pres- t of strategy at AT&T.

MBING DOWN. True to form, e has little use for the con- tional wisdom—or the pronouncements of the "visionaries" litter the high-tech landscape. There's nothing visionary ut AOL, he submits. Its success results from simply paying er attention to what consumers want than technology-ob- ed rivals do. "The industry pundits were out of touch with sumers. That was a huge mistake," says Case, who, fresh of Williams College in 1980, did a two-year stint at Proc- & Gamble Co.

The secret of Case is that he has figured out a way to ke consumers like their computers," says Eric E. Schmidt, -president and chief technology officer at Sun Microsys- tems Inc. "Look at AOL's customer base—it's normal people, it's consumers." Indeed, AOL was so successful in dumbing down technology that for years, rivals and pundits dismissed the service as the "Kmart network." Says Schmidt: "It was extremely arrogant of the high-tech industry to criticize that."

And short-sighted. Now, the mass market is the Holy Grail that all online services and content providers seek. They have seen that AOL's relatively unintimidating slice of cyberspace is the kind of place where the unwired millions of consumers may wind up. "It's still the early days of this medium," says Case. Despite all the cyber hype, only 11% of U.S. households are plugged into the Internet or commercial online services.

As AOL and its rivals try to drag the other 89% into cyberspace, Case figures the online market will start to approach critical mass. He likens it to the development of cable TV, which really only became an economically viable medium when it reached 20% or 30% of homes. An admirer of John C. Malone of Tele-Communications Inc., Case is on a Malone-like quest for market penetration. That's why he's punching AOL's accelerator now. Powerhouses in media, technology, and telecommunications are all trying to grab their slices of the new mass market, too. Companies from Microsoft to Disney to Rupert Murdoch's News Corp. are looking to build online empires. Phone giants AT&T and MCI Communications are giving away Internet-access service—to compete with thousands of local Internet-access providers.

Case is confident that the masses will prefer the comfort of AOL to the wilds of the Internet. Even via the easy-to-maneuver Web, he notes, the Net can be overwhelming. And surfing the Web from a home PC with a standard 14.4 kilobit-per-second modem can mean lengthy waits for images and text to appear. Reaching out to the mainstream market "will require even greater degrees of simplicity," argues Case.

That's why Case is upping his bet on his grand plan to put together all the pieces for consumers. He's building up his own nationwide Internet-backbone network, which is already bigger than AT&T's. He continues to add content, including a growing roster of online publications such as BUSINESS WEEK. An update of AOL's software set to debut in a few months will expand the number of "channels," groupings of content such as news and travel, from 14 to 20. Case figures there will only be a handful of brands that consumers will flock to in cyberspace, and he's working to make sure AOL is one of them.

"HIGH MARGINS." Case has never lacked for self-assurance—or business sense. "He's always been an independent thinker," says Daniel Case III, Steve's older brother and first business

A Look at AOL's Books

Until recently, AOL treated many costs of acquiring new members, including advertising, as a capital investment rather than as a current expense.

1 AOL elected to defer certain costs.

2 That allowed it to report lower total expenses.

3 The result: The company reported profits in 1993 and 1994 and a $34 million 1995 loss.

Business Week asked American Securities to calculate the effect of treating all member-acquisition costs as a current expense. It found:

4 Total expenses would have been far higher.

5 There would have been losses in all three years; the 1995 loss would have been more than double the one reported.

After an SEC review, AOL now capitalizes more member-acquisition expenses.

Fiscal year ends June 30	1993	1994	1995
TOTAL REVENUES REPORTED*	$52,355	$117,496	$397,313
1 Deferred Subscriber Acquisition Expenses	**$3,647**	**$19,502**	**$50,837**
2 Total Expenses Reported**	$51,956	$114,946	$430,960
3 Total Income Reported	$399	$2,550	–$33,647
4 Total Expenses Revised	**$55,603**	**$134,448**	**$481,797**
5 Net Income Revised	**–$3,248**	**–$6,952**	**–$84,484**

*Includes other revenues **Includes income taxes

Note: Amounts are in thousands of dollars

DATA: COMPANY REPORTS, AMERICAN SECURITIES

OSOFT VORK

oft's entry into online s, announced in was supposed to blow ody else off the track. 't. Now MSN is ing a Web service, dditional unique con- licrosoft, for example, ving lots of money into t partnerships, such with NBC.

PRODIGY

The troubled joint venture of IBM and Sears continues to retrench to Web-based standards. Today it is a distant third place, and Sears is looking for the exit. A management buyout led by President Edward Bennett may lead to a new life as a pared-down Web programming studio—rather than a full-service network.

THE NEW SEINFELD? "Think big," Leonsis told us

— SEAN MICHAEL, HECKLERS ONLINE

partner and now president and chief executive at Hambrecht & Quist, a top San Francisco investment bank. The two grew up in Honolulu, along with an older sister, Carin, who now teaches preschool in Santa Rosa, Calif., and a younger brother, Jeff, now an insurance executive in San Francisco. Their father is a corporate lawyer and their mother a teacher. Both were born and raised on Oahu.

Dan and Steve, born 13 months apart, were a team from the start. When Steve was 6, the brothers started a juice stand using limes from the backyard. They charged 2¢ a cup, but many people gave them a nickel and let them keep the change. "We learned early the value of high margins," says Dan.

A few years later, they formed Case Enterprises, a business Dan describes as an "international mail-order company." They sold everything from seeds to greeting cards by mail and door-to-door. "We made a fortune, tens of dollars," says Dan. Case Enterprises also became the Hawaiian distributor for a Swiss watchmaker. They didn't sell one watch, but that didn't faze them.

Before long, the brothers created an affiliate, the Aloha Sales Agency, to sell ad circulars. Dan recalls Steve waking him up in the middle of the night with the perfect name for the circular, *Budget Booster*. The pair also shared a newspaper route. Why the entrepreneurial bent for a pair of comfortably middle-class kids? "It was the challenge, the pursuit of the idea," recalls the younger Case.

Later, Steve wrote album reviews for the Punahou School newspaper. "He'd write reviews of albums in dinky student newspapers and write letters to record companies saying he wrote for the leading newspaper read by teenagers in Hawaii, which was true," says Dan. That got his name on record-company mailing lists—and free albums and concert tickets poured in. Steve loved basketball and, like any good islander, was a bodysurfer. A good student, he was "normal, rel-

Case cau

atively shy, and creati
says Dan.

At Williams Coll
Steve majored in polit
science. "It was the clo
thing to marketing," he s
He was on the All Can
Entertainment Commit
which booked bands, and
spite possessing what he
scribes as "rather lim
singing talent," served
lead singer in two gro
The Vans, a knockoff of
Cars, and The The, insp
by The Knack, whose
hit was "My Sharona."

Upon graduation, C
joined Procter & Gam
where he worked on
venerable Lilt home-per
nent kit and a new i
called Abound, a hair-co
tioning towelette. ("T
elette? You bet!" was
slogan). "It was a disas
recalls Case. After
years, he grew bored. "M
aging a mature business is not my thing," he says.

His next stop was PepsiCo's Pizza Hut unit. As manage
new pizza development, Case spent months traveling f
city to city eating slice after slice in search of new ideas
toppings. Nights on the road gave Case time to indulge hi
terest in a new gizmo: the PC. He bought a Kaypro, paid

The Buying Spree

DATE	PRICE IN STOCK	COMPANY
AUG. 1994	$34 million	Redgate Communications. Ted Leonsis' company, which made multimedia CD-ROMs with online lin
NOV. 1994	$35 million	ANS, creator of the Internet network. Has provided much-needed, high-speed network capacity
NOV. 1994	$6 million	Navisoft, maker of software for creating Web sites
DEC. 1994	$41 million	Booklink Technologies, provided AOL's initial Web browser, which it now plans to drop for browsers from Netscape and Microsoft
MAY 1995	$30 million	Medior, interactive media developer
MAY 1995	$15 million	WAIS, developer of Web server software
JUNE 1995	$11 million	Global Network Navigator, provided the foundatio for AOL's new Internet-only service
SEPT. 1995	$15 million	Ubique, makes software for building 3-D worlds, which will be used to enhance AOL's chat forums.
FEB. 1996	$59 million	Johnson-Grace, data compression. Should help speed up transmission of text and images.

DATA: AMERICA ONLINE

online bug when he was on the road for Pizza Hut

subscribe to The Source, and spent hours on this online vice, chatting and perusing bulletin boards. "I thought re was something magic in sitting in a hotel room and con- ting to all of this," says Case.

Meanwhile, brother Dan was the family pioneer in high h. A Princeton grad and Rhodes scholar, he became an as- iate with Hambrecht & Quist. He was soon representing firm on the board of Control Video, a gaming service for ari computer owners.

Steve's turning point came in 1983. He joined Dan at the nsumer Electronics show in Las Vegas, where Dan intro- ced his brother to the founders of Control Video. They of- ed the younger Case a job as rketing assistant on the spot. He k it. Soon after, the company ran of money. The board fired the nagement team and installed as Jim Kimsey, an entrepreneur o had been working part time at Control Video. Dan n left the board. Steve helped Kimsey bring in venture ney, and in 1985, the company was reborn as Quantum mputer Services Inc., an online service for owners of mmodore computers.

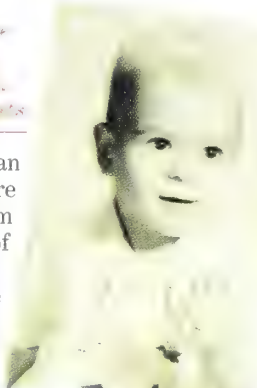
Almost from the start, Kimsey groomed Case for the spot. The apprenticeship had its bumps, though. se landed a deal with Apple Computer Inc. in 1987 ically by sheer persistence, practically camping at its Cupertino lif.) headquar- s for four nths. "I wore em down," he s.

After he won Apple business, quickly signed ndy Corp., too. se plowed much the $5 million in sh capital into erhead to support deals. But it was much too fast, d Quantum had to rench. "I had most my venture-capital ard members calling him to be fired," nsey recalls. "I said, e have $5 million in- sted in this boy's ed- ation. Do you want to throw that ?'"

That education has apparently paid "He has grown dramatically over last 12 years," says Kimsey. So has the company. Case k over as CEO in 1992, a year after Quantum was re- med America Online, and shortly after the initial public of- ing raised $66 million. Back then, revenue was $27 million d AOL trailed both CompuServe and Prodigy with just ,000 subscribers. It had 250 employees.

Case laid out a growth-at-any-cost strategy in 1993 and ver looked back. Today, AOL has 4,000 employees, and me 200 are being added every month. It is decamping from Vienna, Va., to a 113-acre spread in nearby Loudon County.

Managing growth has become a key issue. AOL is still absorbing the people and facilities snapped up during its $100 million buying binge. And, in retrospect, it looks like some of those deals were hasty. ANS and GNN have brought a badly needed data network and Internet-access capabilities. But many of the software startups it acquired—including Navisoft, WAIS, and Medior—have languished. Booklink Technologies, a maker of browser software for which Case paid $41 million in 1994, looks like a loss, given that AOL now plans to use browsers from Netscape Communications and Microsoft.



ISLAND BOY: *Steve was born and raised in Hawaii, as were his parents*

To help keep things under control, Case in January hired his first chief operating officer, William J. Razzouk, a former Federal Express Corp. executive. "My job is to make sure the mass stampede is managed and orchestrated," says Razzouk. That will lighten the day-to-day load for Case, who friends describe as a workaholic. The move comes too late, however, to save his 11-year marriage to his college girlfriend. The couple has three children. Case notified his directors in early March that he now has a "personal relationship" with his vice-president of corporate communications, Jean Villenueva.

Now, with Razzouk minding the shop, Case is making head-turning deals. Consider how he got what he wanted from Netscape and Microsoft. Dissatisfied with terms of a deal with Netscape, Case got a better one with Microsoft, which agreed to rework its Internet Explorer for use on AOL. That prompted Netscape to do what AOL wanted all along: to make its browser work seamlessly with AOL, too.

THE SIBLINGS: *Steve, Dan, Carla, and Jeff in 1970*

WITH THE BAND: *Case, center, and The Pie in 1970*

Overcoming his shyness, Case is now a prominent spokesman for AOL. "He's the best at staying on-message than anyone I have met," says Michael Kinsley, the ex-TV commentator who is creating an online political journal for Microsoft. Anything to keep customers coming and the revenue flowing. Wherever he roams, Case is racing to make AOL the premier channel on what he sees as the new mass medium. Says Case: "This is a momentum game."

As he is well aware, there is something in cyberspace with greater momentum than AOL: the Web. With content providers launching sites every day and hundreds of Internet-access services hawking low rates, AOL is under pressure. The immediate issue is price. Case brags about how average monthly bills have risen to $18 (the rates are $9.95 a month for five hours and $2.95 for each additional hour). But AOL is testing a "heavy usage plan" for its best customers, the third of its clientele that generates two thirds of revenue. These are the ones most likely to switch to Net services, typ-

DOUANE
DOGANA

e've come up with a
hole new world
nguage. It's got people
erywhere talking.

The world's first standard in digital mobile communications goes by the name of GSM – Global System for Mobile Communications. Deutsche Telekom played a key role in its development. With GSM, as well as ISDN and ATM, we're laying vital stepping stones toward the global information infrastructure of the future.

Together with our European partners, we at Deutsche Telekom have created the GSM standard for digital mobile communications. It marks a milestone on the road to improved international understanding, a landmark pointing the way to guaranteed quality, coverage and reliability of transmission. GSM is the key to true world mobile communications.

European initiative for the digital future of the world.
In only five years, GSM has established itself as the benchmark, the world's mobile communications standard. People in over 80 countries throughout four continents already depend on digital GSM mobile communications networks, and the number is constantly growing. What's more, working with its partners, Deutsche Telekom has for the first time opened the way for unlimited mobile communications between Europe and North America, translating GSM technology originally masterminded in Europe into a new global telecommunications language.

Telecommunications "made in Germany".
Another example of Deutsche Telekom's technological cutting edge are the Data Infobahns. We operate the most closely-woven fiber-optics network in the world. Our cable network is also the world's biggest, some 100,000 km overall, and our ISDN network the most extensively developed. Plus we were the first to use ATM, the new, more sophisticated transmission system for the communications fast lane.

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A key player in telecommunications, Deutsche Telekom ranks No. 1 in Europe and is the No. 2 network operator worldwide. And when it comes to pushing forward, we're virtually second to none as a prime mover. Get to know more about our multimedia and online services, our smart networks and our wealth of experience and know-how – backed by global partnerships – and you'll get a finer feel for the cutting edge of tomorrow's technology.

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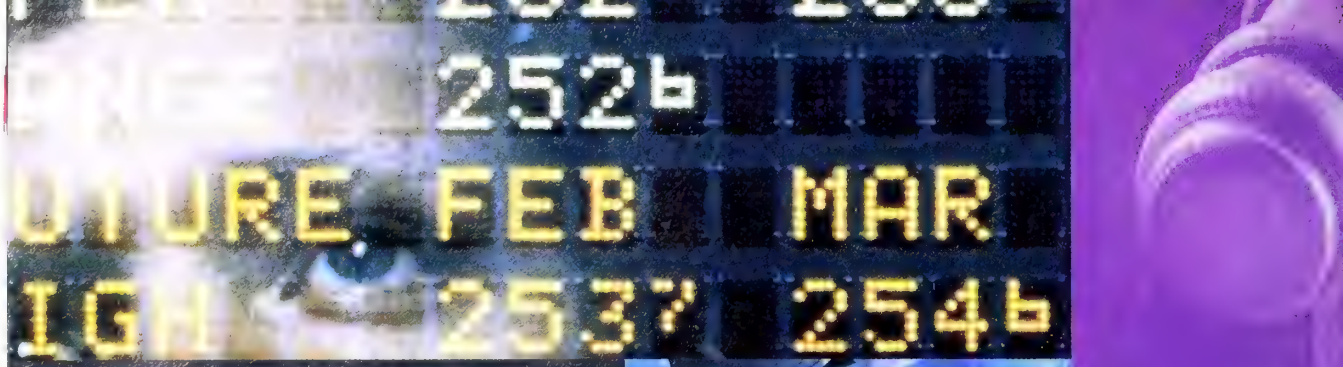

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cial Services, Information and Media, Educational and Professional Publishi

y priced at $19.95 a month for unlimited use. Longer-term, e is preparing for the day when the Web takes over—and omers cruise AOL from the Net and vice versa. The first is the AT&T deal, which gives WorldNet customers access AOL at a discount. Before long, the Web and commercial vices such as AOL will be almost indistinguishable.

'hat's when a mass audience will pay off. Today, subber fees account for 90% of AOL's revenue. Partly be-se of Web competition, AOL will have to find new sources evenue. Advertising could be a major one. And Case s to deliver advertisers the biggest online audience. They ht log on via AOL's network or the World Wide Web. at will matter is that they'll be there by the millions.

'hat is, if AOL has the right programming. So it's furiously ing partnerships with media giants. The roster includes Capital Cities/ABC, Time Warner, and Viacom in the U.S. In Europe, AOL has an online service with Bertelsmann, the German publisher. Any of these partners can also go up on the Web, and plan to. But they also want to reach AOL's audience. "It's naive to think that even if you have a powerful brand name like ABC that someone is going to find it" on the Web, says Lauren Marrus, vice-president of Capital Cities/ABC's multimedia group, which has a partnership with AOL. "We see a role for both the commercial services and the Net." AOL plans to make sure that remains the case.

Cover Story

By Amy Cortese in New York and Amy Barrett in Vienna, Va., with Paul Eng in New York and Linda Himelstein in San Francisco, and bureau reports

'WE HAVE TO BE PRIME TIME'

ed Leonsis loves a good fright. In November, 1994, the America OnLine Inc. executive opened a ompany rally with heart-stopping lips from *Jurassic Park*. As the -rex clawed through an electrified ence, Leonsis warned AOLers to forify their defenses against the beast rom the Northwest, Microsoft Corp. You need an enemy," says Leonsis.

ON THE BALL Hungry to acquire content, Leonsis is all ears. Hint: The cooler the idea, the better

Now that Microsoft and AOL have partial truce, who's the new *bête oire*? "Jerry Seinfeld," Leonsis eplies without hesitation. It makes ense. As president of the division esponsible for content, Leonsis has aunched a flurry of deals to make AOL a media powerhouse. Still, on a ood Thursday night, AOL grabs an udience of maybe 400,000. *Seinfeld* ets 20 million. "We are pathetic compared to that," Leonsis says. "But we have to get there. We have to be prime time."

Turning suburban Virginia, home of AOL, into a cyber-Hollywood seems a stretch. But Leonsis has made a career of such leaps. A 1977 graduate of Georgetown University, he started his high-tech career in advertising and public relations at Wang Laboratories Inc. In 1986, he co-founded Redgate Communications Corp., an advertising and public-relations company that also produced shopping guides on CD-ROM. America Online bought Redgate for $34 million in 1994 to get the company's catalogs and online commerce expertise. Leonsis came in the bargain.

The 39-year-old executive, in sharp contrast to low-key AOL chief Steve Case, is a flamboyant new-media impresario. Through Greenhouse, a program started last year, Leonsis pumps AOL funds into content startups—more than $10 million into 30 enterprises, so far. "We are going to find our Spielbergs this way," he says.

Leonsis screens most applicants himself, including three 25-year-old Alabama buddies who arrived with an idea for a comedy program 13 months ago. "We had seen this as something we'd do in our spare time," recalls Sean Michael, a member of the trio. "But Ted said, 'You guys need to be thinking big.'"

They did, and Hecklers Online became a Greenhouse hit—one of six that are each attracting AOL surfers at the rate of 1 million hours annually. Another hit is The Motley Fool, an investment advisory that has spawned a best-selling book and a magazine column. Others, such as Net Noir, an area for African Americans, and SurfLink (for the aquatic kind), "haven't found their audience yet," Leonsis concedes.

DATELINE GOMORRAH. Lately, Leonsis has broadened his quest, launching a series of joint ventures with media giants, including Time Warner, Viacom, and New Line Television. The goal is to produce full-blown online channels, similar to cable-TV channels. The Hub, launched by New Line and AOL on Mar. 19, is aimed at 15- to 34-year-olds. Its offbeat offerings range from dream analysis to racy Bible excerpts. Why AOL? "They were the only ones willing to blow up the models and not look back," says Robert Friedman, president of New Line Television Inc.

Leonsis loves anything that makes AOL cool, even outrageous. He just authorized an April Fools Day gag—an AOL news flash blowing the lid off government efforts to suppress reports of life on Jupiter. And once, the imposing 5-foot, 9-inch 205-pounder stunned a visitor by belly-butting another AOL executive sumo-style. "Life is a contact sport," he asserts. Jerry Seinfeld, watch out.

By Amy Barrett in Vienna, Va.

"We can finally be relaxed about life. But can you ever relax about money?"

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RESTAURANTS

SHOOTOUT ON RESTAURANT ROW

Overbuilding is taking its toll on casual-dining chains

There's a three-mile stretch of road in Addison, Tex., just north of Dallas, that's a virtual shrine to the American chain restaurant. Both sides of the busy thoroughfare are lined with joints offering everything from fast-food burgers to seafood. In all, there are 115 places to eat—about one every 45 yards—and they're often packed. But don't be fooled by the traffic: Belt Line Road may be the nation's most visible sign of what's wrong in the restaurant industry.

Belt Line is dominated these days by casual sit-down chains such as Chili's Grill & Bar, Applebee's, and Olive Garden that have sprung up over the past five years in every suburb in the country. Such operations, which were darlings of the initial public offering market a few years ago, represent demographically driven dining. They're aimed at Baby Boomer parents and their Echo Boom offspring: They serve decent food—plus alcohol—bring it fast, and welcome kids. And with a dinner check for a family of four coming to about $40, a night out doesn't break the bank.

But there are growing signs that the breakneck buildup in casual dining has gone too far. Since 1992, the segment has added 1,400 restaurants, or one-quarter of the current total, and boosted its sales by 36%, to $38.4 billion.

GOING, GOING... *One chain has closed, others are hurting*

Now, it may be on the verge of a painful restructuring. Take the empty building between Red Lobster and Olive Garden on Belt Line: It once housed a China Coast restaurant. Darden Restaurants Inc., which owned all three chains after a spin-off from General Mills Inc. in May, closed the money-losing 51-unit chain last year. Other chains, such as Hamburger Hamlet Restaurants Inc., have scaled back, and more will follow. Just look at Quantum Restaurant Group Inc.: It went public in 1992, used the cash to expand, but is now losing money and looking to sell two of its chains.

Restaurant IPOs, Sweet and Sour

COMPANY	IPO DATE	CLOSING PRICE	RECENT STOCK PRICE
BERTUCCI'S	6/91	10 11/64	5
BACK BAY REST. GROUP	3/92	18½	3¼
CHEESECAKE FACTORY	9/92	18 11/64	25¾
LANDRY'S SEAFOOD RESTS.	8/93	7¼	18¼
RATTLESNAKE HOLDING	6/95	6	3½
ITALIAN OVEN	11/95	8	5¾

DATA: BLOOMBERG FINANCIAL MARKETS, TECHNOMIC INC.

"There's going to be a huge shakeo predicts Abe J. Gustin Jr., CEO of plebee's International Inc., which 666 restaurants and a menu that cludes pork ribs, fajitas, and stir fr

Even the biggest players have gun to feel the pain. Brinker Inte tional Inc., which owns fast-grow Chili's, unloaded two other chains year as earnings skidded 41%, to million, even though sales grew 2 to $1.1 billion. Shares of Morr Restaurants Inc., which owned the store Ruby Tuesday chain, fell 17% tween September and March, as enue for the chain dipped by during the second half of 1995. Morr recently split into three separate c panies. Even Applebee's, the indust biggest success story, has seen sa store sales declin the last five mon according to analy And those are larger companies better prospects riding the indu consolidation. Sma chains—such as H burger Hamlet Sfuzzi Inc., both which filed for ba ruptcy last year— extinction if they c find a way to b profits quickly, analysts say.

YOUNG EXPRESSIONISTS. That's no say casual-dining restaurants are a idea. For just a few dollars more t the local diner or family-style ch such as Shoney's Inc. and Denny's customers get better service and and, often, a full bar. That makes t a favorite with harried dual-income ilies too frazzled to cook and unwi to leave the kids at home. "They' place you bring your family," notes ice Meyer, an analyst at Prudential curities Inc., "and yet you're not g

RESTAURANT ROW: *The sector has exploded since '92*

orry that if your child spills some-
g, it's going to make a scene."
hat's what drew Joe Mohen, along
his seven-year-old son and five-
-old daughter, to a Ruby Tuesday in
tbury, N. Y., for a quick lunch re-
ly. Sharing a meal in a restaurant
small children is rarely relaxing,
with its crayons, kids' menus, and
egically placed TV sets, Ruby Tues-
eases the experience. "It's enough
nake the passing time more pleas-
" said the 39-year-old software ex-
ive as his daughter drew a picture
restaurant-supplied crayons.
ut now the chains are choking on
own success. Every format that
s—usually simple American, Italian,
Mexican fare—has been endlessly
ed, and it's hard to tell one faux-
d-paneled outlet from another. "It's
same old same old," says Ron Paul,
ident of food-industry consultancy
nomic Inc. in Chicago. That has
ed the rebound of independent
aurants, which were dealt a body
when the new chains popped up at
start of the decade.
o be fair, overbuilding is not the
problem. Retail sales are off every-
re as worried consumers tighten
belts. "Seventy-five percent of our
aurants are in malls," says A.
hard Johnson, a senior vice-presi-
at Ruby Tuesday. "When retail
s are soft, our sales are down."

ILIAR FACES. Applebee's, which
ed $27.5 million last year on sales of
million, appears to have held up
best. With a format that seats 160
ple instead of the standard 200-plus,
chain can bypass the overbuilt sub-
an shopping strips for Main Street
re there's less competition. "A lot of
kets are over-penetrated," says
tin. "We can make money where
e the only game in town." Apple-
s tries hard to look like a neighbor-
l restaurant. Photos of high school
etes and other local heroes share
space with the usual celebrity jocks
rock stars.
ivals are also starting to move away
cookie-cutter designs. Darden has
odeled about 300 of its 715 Red
sters to resemble wharfside fish
ses. Sales in the made-over restau-
s are up 2% to 4%. In short, chains
l to give customers a better reason
valk in than mere proximity if they
t to thrive. If they don't, they will
t the same fate as the coffee shops
diners whose profits they've
bbed. And there could be a lot more
kened windows on Belt Line Road.
*y David Leonhardt in Westbury,
., with Stephanie Anderson Forest
Addison, Tex., and Gail DeGeorge
Miami*

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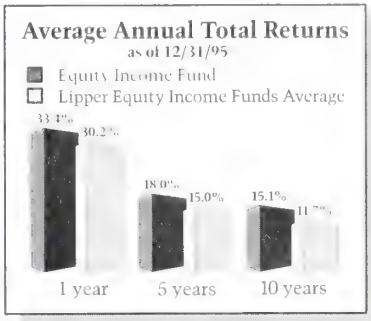

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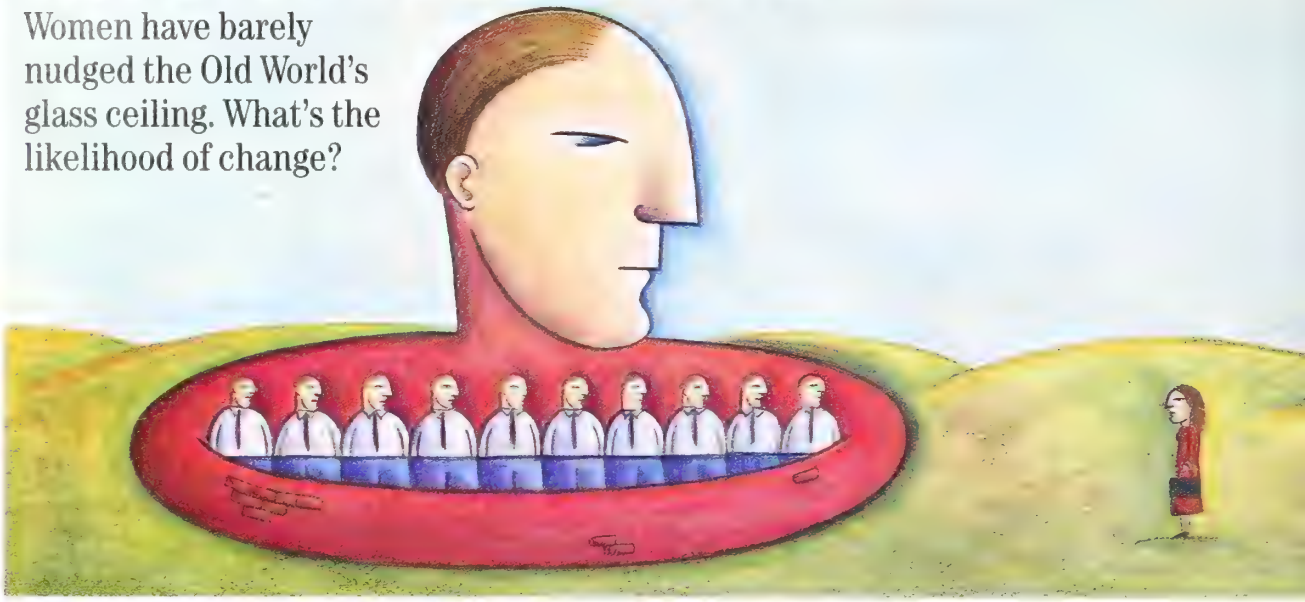
EUROPE

OUT OF THE TYPING POOL, INTO CAREER LIMBO

Women have barely nudged the Old World's glass ceiling. What's the likelihood of change?



In Europe's corporate suites, Susan Wilson always stood out. Women rarely occupy high-level jobs, and it's especially unusual for a woman to make it to the top of a defense company. Wilson defied the odds. With business and economics degrees, she worked her way up the ranks of Ford Motor Co. in Britain and Spain, then joined British defense company Vickers PLC. In 1990, at age 38, she was director of quality, head of personnel, and the first woman board member at Vickers' defense systems company.

But Wilson's fairy-tale career ended abruptly in late December, 1994. In a cost-cutting move, her boss said Vickers no longer needed a quality and personnel director, even though the company was about to deliver on its most important military contract in a decade: $1.45 billion worth of Challenger II ar- tanks. He added that he and Wilson had a personality conflict, making it difficult to work together. So he dis- her.

Wilson isn't talking, but in documents with an industrial tribunal, a panel siders unfair-dismissal cases, she she was pushed out because she woman. The chief executive officer of the defense unit had created "an increasingly macho culture" that forced her to fight to be included in policy discussions, she alleged. Also, she claims she was laid off because she was pregnant at the time. A Vickers spokesman denies that Wilson's gender or her pregnancy played a role. On Jan. 9, a week before a hearing on her case was to begin, Vickers settled. Neither side will discuss the details, but the amount was widely reported at about $150,000. Wilson now runs an economic development program in Newcastle.

CHILDREN AND COOKING. Twenty years after adopting equal-opportunity laws, Europe is still a man's world. Women make up 41% of the European workforce, but only 1% of board members are women. This is far less than in the U.S., where women account for half the workforce and 10% of board seats. European women also are not moving into middle and senior management jobs as fast as American women. After a frenzy of downsizing, companies have slashed many of the jo women aspired to, leaving them wi both a glass ceiling and a sticky floor.

> One new British program proves the cost-effectiveness of equal opportunity

The slow progress into boardroon and executive suites has many cause from a lack of child care for workir mothers to cultural preferences. It partly because many women drop o when the going gets tough. But there bias, too. In survey after survey, me say a woman's proper place is in t home. Moreover, the demands of chil rearing and running a household, whic men and women agree are largely t woman's responsibility, are rarely a commodated by flexible hours or jo sharing arrangements. Most wome don't seek flexibility, considering it i proper to ask for special privileges.

The result is that European corpor tions haven't faced the demands Ame ican working wome have long mad on U.S. companie Only in a few con panies are significa changes under wa Yet the pressure f more flexibility an greater opportuniti for women is grov

ing. By 2000, women will make up 75% of Europe's new workers, according to the European Commission, and will hold half the graduate slots in Europe's business schools. Companies won't have much choice but to draw managers from a growing pool of working women and to design programs that help retain them.

Even Britain, considered Europe's most positive environment for working women, is playing catch-up. After five years of campaigns by pressure groups, 41% of the 100 largest British companies today have a female board member, compared with 95% of the 100 largest U.S. companies. What's more, female managers overall earn 68% of what male managers do, barely up from 66% in 1991. "There are very few women in positions of line authority," frets Yve M. Newbold, chief executive of board recruiters Pro Ned Ltd. and board secretary for 10 years at Hanson PLC. "It's not going up or down, it's just nudging along the bottom."

ith rising enrollment of European en in business and professional ols, it's widely accepted that the generation of female managers will fewer problems. That may be wishhinking. In Germany, the social cture is still so dependent on the an as homemaker that it's difficult women to take an outside job. Eletary schools send children home for h. Few companies provide day-care ities. Shops by law must be closed ings and by early afternoon on Satys. Says Gertrud Höhler, a Berlined communications consultant and ctor of Britain's Grand Metropoli-PLC: "We have on our shoulders all history. The rules are all mane—that women are for children, rch, and cooking."

o be sure, few male executives admit ejecting a woman on the basis of her ler, and few dispute that women offer able managerial skills. But privately, worry that their company will intime and money to train a woman to see her marry, become pregnant, leave. The return rate among new hers is far lower than in the U.S., it's unclear whether this is because en believe they won't be promoted. Many women think they must delay marriage to get ahead and often postpone having children or resign rather than try to combine work and family.

SUBTLE REMEDIES. What is the likelihood of change? Both men and women managers have ruled out U.S.-style affirmative action as the way forward. Mandatory quotas are seen as degrading to women and as requiring companies to hire and promote less-than-qualified people. Women overwhelmingly say they want to land a job or promotion on their own merits and not through government fiat.

The European Court of Justice agrees, for different reasons. The court last October shot down one form of affirmative action, mandatory hiring quotas, that had been adopted by the German state of Bremen. Bremen had set aside 50% of public-sector jobs for women, but when a male gardener was rejected in favor of a woman because of the quota, he sued. On Mar. 27, new European Union legislation was proposed to encourage less rigid policies for hiring and promoting women.

Already, in a small number of companies, a subtler remedy has begun to take hold. A five-year-old British program, called Opportunity 2000, has persuaded companies to set voluntary numerical goals for promoting women. Among its 300 member companies, 32% of all management slots are filled by women. Some of the members are government bodies, more disposed toward female managers than the private sector.

Opportunity 2000 helps companies get

'I Don't Want To Fight Anymore'

In tradition-bound Germany, bucking the tide can be tough. Or so Christiane Kolbus discovered as she tried to build her professional and personal lives simultaneously. She chose to enter one of the country's most profoundly male-dominated industries: banking. And she decided to marry an unemployed machinist, who remained at home and restored antiques while she went out to earn the family's bread.

But things didn't work out the way that Kolbus had anticipated. After beginning her professional career as a Commerzbank trainee in Bremen in 1979, she rose quickly through the ranks to become chief of all the bank training programs in her corporate region. Working long hours and traveling more than three months out of the year, she couldn't even contemplate having children. Slowly, as time went on and her career at the bank developed, she and her husband grew apart from each other. "We developed in two different directions," she says. In 1990, when the bank transferred her to Leipzig to develop training programs for Commerzbank in eastern Germany, Kolbus left her husband behind.

NO LONGER DRIVEN: *Kolbus, soured on office politics, quit a training program*

Office politics also had an influence on her career at Commerzbank. "The higher up you go, the more political it gets," she says. "And the less honest you can be." Now 35 years old and assistant general manager of training in the Saxony-Anhalt region, Kolbus recently quit Commerzbank's highly coveted executive-training program, which grooms selected bank employees for senior management positions. "I don't want to fight anymore. It takes a lot longer to change things than I thought," she now admits.

No longer driven, Kolbus says she now derives much of her satisfaction from friendships, skiing, yoga, and motorcycle riding, among other activities. She has decided to remain childless. "I'm reconciled to the idea of growing old without children. It's no longer necessary for me to depend on other people to be fulfilled," she says. Still, it's a far cry from the home and work life she envisioned just a decade ago.

By Linda Bernier in Brussels

over their distaste for goal-setting by stressing the economic impact of helping women. Says Director Liz Bargh: "We put equal opportunity in financial terms for them." She encouraged Rank Organization PLC, an entertainment and leisure company, to let new mothers phase in their return to work as a way to cut recruitment and training costs. After five years, Rank saved $1.5 million by raising its retention rate for skilled women from 20% to 80%.

That's just a start. Anglo-Dutch consumer products giant Unilever PLC is also trying to boost women in management. It has only five among its top 100 managers worldwide, even though its market is largely female. "It's still not adequate. The lack of women in senior management is a drawback," says Chairman Morris Tabaksblat, whose company is an avid participant in Opportunity 2000.

On the Continent, there are also promising signs. La Compagnie de Suez in December named Christine Morin Postel, 49, to manage a $3 billion property portfolio at Credisuez, its real estate division. Though there are still few female CEOs in private business, French women have held powerful positions in medical and legal fields, the military, small business, and government.

FED UP. Scores of women have set up their own businesses. Fed up with slowly climbing the corporate ladder, German women have been starting companies, especially in the service sector. One-third of all German startups are now woman-owned, up from 10% in 1975. The generational change among the country's *Mittelstand*—its small- and medium-size family-ow businesses—also will German women. Many these will pass to a new eration of daughters in next century.

As more women move top positions in European panies, their styles may ence how business is c "Female ways of managi consensus decisions, the a to handle several projects time, and strong interper skills—will be more appr ate in the next millenni says Roger Young, dire general at Britain's Inst of Management.

But as is so often true in Eu change is agonizingly slow. A de ago, many high-flying women confident that they could make the top levels of their corporat Now, it seems it may take genera for European women to attain equality of opportunity. If that's case, European corporations are lo valuable executives—and payin heavy price.

By Paula Dwyer in London, Marsha Johnston in Paris and K Lowry Miller in Bonn

Why Europe Is A Man's World

Women make up 41% of the workforce:

BUT EARN LESS THAN MEN

- Up to 40% less in manufacturing jobs
- Up to 35% less in service jobs

AND HOLD FEWER TOP JOBS

- 29% of all management jobs*
- Less than 2% of senior management jobs**
- Less than 1% of board seats**

*Including voluntary organizations and local and state governments
**Private sector

DATA: EUROSTAT, INTERNATIONAL LABOR OFFICE, BUSINESS WEEK

'All Partners Are Not Equal'

Hilary Sears made it to partner at her company, executive search firm Korn/Ferry Carré/Orban International. But the 49-year-old headhunter is disappointed with the view from the top. There are only 21 women among the 170 partners in her firm. Those women who do join the inner circle don't necessarily wield the same influence as their male counterparts. "All partners are not equal," says Sears.

JUST A TOKEN?: *Former head hunter Sears saw lip service paid to professional women*

One problem, says Sears, is that women managers in Britain are stifled by male-dominated social convention. Networking, the lifeblood of headhunting, is restricted for women because many clubs exclude them. That's a big drawback for someone at a company where bringing in new business is the key to gaining stature. As a result, women often don't get to shape the strategy and management style at the firm, she says.

To get where she is today, Sears had to focus intensely on her goals and make sacrifices in her personal life. She got out of advertising in 1981 when she realized its limitations for women and went into the search business, detouring briefly to pick up an MBA. She put 12-hour days, networked in the evenings, and made the firm's billi targets. "I had one objective: becoming a partner," recalls Sears, who was 41 when Carré/Orban made her dream come true. When she was 43, she married a former business-school classmate who was divorced with three children.

A popular speaker at managemen conferences and on radio and televi sion, Sears was asked in 1990 to found the central London branch of the Institute of Directors, a professional association for board member She built the group up to 5,000 mem bers but was dismayed that only 7% were women, and that she, as chair person, was the only one invited to sit on the board. When she left the association last June, after five year no one called. "I was a token," she says regretfully. That's not the role she had in mind.

By Linda Bernier in Brusse

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BANKING

DEUTSCHE BANK'S CHINESE PUZZLE

Will its lawsuits ever recoup millions in unpaid loans?

The Jianchuan Machinery Factory, a grimy, state-owned refrigerator-compressor plant in the remote reaches of China's Sichuan province, is a strange birthplace for a multimillion-dollar international feud involving Germany's largest lender. That's little comfort to Deutsche Bank.

The bank breezed into China in the 1980s, lending to state-owned enterprises that leased German machinery to Jianchuan and several other obscure manufacturers with hefty appetites for imported equipment. The Germans figured the state connections would protect them against default and did not demand that Beijing come up with written government guarantees.

COUGH UP? Then came the shock. Through a combination of bad management, ill-conceived projects, and, probably, corruption, the manufacturers ran out of cash. The borrowers—owned by arms of the Bank of China, Ministry of Foreign Trade & Economic Cooperation (Moftec), and other gilt-edged names—abruptly stopped paying the Germans.

As the dispute lingered, everyone from China's financial czar, Zhu Rongji, to senior German government officials and Deutsche directors have been dragged into the case—to no avail. Deutsche has even won a $6.7 million default judgment in a Frankfurt court against one of the borrowers, Shanghai International Leasing Co. (Silco). It now plans to ask courts in Shanghai to enforce the decision, in hopes of forcing Silco into bankruptcy or getting its owners to cough up some cash.

Yet so far, the Chinese refuse to pay. "This is no way to behave," fumes a senior Deutsche officer, who, like other bank executives, would speak only on conditions of anonymity. "There are rules, and they must be followed. They can't make up their own." Silco declined to comment on the default decision but said it couldn't pay off its loans until it received payments from leasing clients.

The contretemps is only the latest reminder of the extent to which China, even after nearly two decades of economic and social reform, continues to play by a different set of rules from the West's. Lehman Brothers Inc., for example, is entangled in a pair of lawsuits seeking $100 million from two state-owned Chinese companies wi currency and commodity trades v bad. And Deutsche is hardly the foreign bank to lose money finan leases of imported machinery. Ne three dozen foreign banks are owe estimated $600 million for leasing d that went bad after a slew of such tures were set up in the 1980s to s step restrictions on foreign borrow Japanese banks have been suffe most, with virtually every major le taking a hit. Several European lend including a subsidiary of France's ciété Générale and Crédit Lyonnais, have tallied losses. At Silco al Deutsche Bank claims 70% of the ing deals have gone bad.

UPGRADES. To some observers, p lems such as this are a worrisome for a country that is depending on eign investors to help support its velopment. Says Jerome A. Cohe lawyer at Paul, Weiss, Rifkind, Wha & Garrison in Hong Kong: "The fu mental question regarding China's ity to raise billions of dollars is: any lender rely on the loan docum or investment contract.'"

In fact, China's difficulties with eign lenders have already helped up the project-finance market. B are also demanding more written g antees. But although the Deutsche up has slowed Germany's enthusi for China, it has not extinguishe Deutsche opened a branch in Guang last April and has applied to upg representative offices in Shanghai Beijing to full branches. Its tough st on the leasing deals "is not a declara of war," says a Deutsche official. want to increase our business in Ch

AN ANATOM

▶ **THE SILCO CASE.** From 1988, the German bank le Shanghai International Lea Corp. $14.4 million. The b not have written governmen guarantees but was introdu the deal by Bank of China, Silco's gilt-edged owners, w assured the Germans that t ing firm's credit was good. Silco stopped paying. After collection efforts and lobby senior Chinese officials fai Deutsche sued in Frankfurt won a default judgment for million covering principal a est. Silco still has not paid

onetheless, the bank's patience fi- snapped after what it saw as years elaying tactics unaccompanied by attempts to deal with the situa- Now, Deutsche is going public in s that other lenders will follow its nple and get tougher with China. so hopes its planned legal action in nghai will embarrass the People's k of China, the country's central k, into paying up.

eutsche's biggest beef involves $13.5 on in loans and unpaid interest ac- d by Silco, which financed the lease anchuan Machinery. Its shareholders de some of the most powerful and ected names in China: k of China, Industrial & mercial Bank of China, a International Trust & stment Corp., and Shang- nternational Trust & In- ment Corp. Another trou- leasing company that s Deutsche, China For- Trade Leasing Corp., is ed by a subsidiary of Moftec.

he Germans say the leasing compa- parents should make good on loss- just as they might do in industrial- countries—since they vowed their ring were good for the money. "If can't trust what the Bank of China you, then whom can you trust in a?" grumbles a Deutsche executive.

NEWALLING." Deutsche Bank's af- with Silco set sail on a wave of eu- ia. It was 1986, less than a decade the sweeping economic reforms ched by China's paramount leader, g Xiaoping, and foreign banks were r to introduce the Chinese to the d of modern finance. At a leasing nar that the German bank hosted in nghai, officials of Bank of China's branch steered Deutsche to Silco. As German bankers tell it, the Chinese promised no borrower could be a better risk: Bank of China executives would run the company—as they still do—and the parent would control its deals. In fact, only one of the three agreements Deutsche Bank funded was repaid.

In 1991, loan payments to Deutsche Bank stopped, but Silco told Deutsche not to worry. It was, the leasing company claimed, just a temporary liquidity problem. Thus began five years of trouble. Deutsche says it wrote letters to Silco's shareholders and sent delegations to plead with Silco and its parents. The bank says it offered to extend its payment schedule or even to lend Silco more money to help pay the first loan.

> "This is no way to behave," a Deutsche Bank official says. "There are rules, and they must be followed. They can't make up their own"

Deutsche Bank executive board member Ulrich Cartellieri even appealed directly to financial kingpin Zhu in 1995, during an international conference in Davos, Switzerland. The bank says Zhu was sympathetic and agreed that China would have to follow internationally accepted codes of behavior if the country wanted continued access to global capital markets. But Silco still wouldn't pay up. "It was all stonewalling," says a bank executive.

Finally, the bank sued Silco in Frankfurt, under a provision in its contract making the deal subject to German law. Silco sent a delegation to Frankfurt in time for the case, but the Chinese did not appear in court, perhaps figuring the judge would be even harder on them if they showed up. That left Deutsche Bank the winner of $6.7 million by default.

WASHED HANDS. Deutsche Bank has a similar story to tell about Moftec, the foreign-trade ministry. The bank says it is owed $6.8 million by China National Metals & Minerals Import & Export Corp. This Moftec subsidiary, known as Minmetals, inherited the Deutsche debt from another ministry arm, China Export Bases Corp. Deutsche claims Moftec officials told the bank they would stand by their company. But Moftec Minister Wu Yi has washed her hands of the matter, asserting in a recent letter to the bank that Deutsche had simply made a bad lending decision.

Deutsche says it won't provide financing to state-controlled enterprises without government guarantees anymore. But some bankers note that the practice of lending to leasing subsidiaries of big financial institutions without a formal pledge of support remains common throughout the world.

Chinese authorities have spent the past several years trying to get more control over the entire financial system. Unless they speed up that effort, China could find the flow of megabuck international credit that it needs slowing down dramatically. "We and other banks are being more cautious now," warns a Deutsche Bank China expert. However alluring the future potential of Chinese markets, Western business will eventually balk if it doesn't get paid.

By Mark L. Clifford in Hong Kong and John Templeman in Frankfurt, with Dexter Roberts in Beijing and Mia Trinephi in Paris

LS GONE BAD

STRY'S BURDEN? Deutsche uing China Foreign Trade Corp. (CFTLC), owned by an he Ministry of Foreign Trade mic Cooperation, to recover llion from another loan deal ur. CFTLC's most recent t, in 1993, was seen as part cessful effort to get Germany he export-credit financing e Tiananmen Square mas- has made no payments since ke Silco, CFTLC maintains it pay the loan until its own clients come up with the

DATA: DEUTSCHE BANK, BUSINESS WEEK

EXPRESS LOANS: *Wells's Dial and Reid cut processing time—and cos*

BANKING

MOM AND POP, YOU ARE PREQUALIFIED!

Wells Fargo is going gangbusters into small-business lending

For Janet Fletcher, getting a loan for B&W Auto Salvage, her Dallas junk-car business, used to be a real hassle. Under the stern gaze of her local banker, she was forced to answer extensive questions on why her $2.2 million business needed the money, and to supply thick files of financial information on business plans, balance sheets, cash flow, and profits.

But last summer, Fletcher received a mail solicitation saying her business had been "prequalified" for a $50,000 credit line at a 13% annual interest rate from San Francisco's Wells Fargo Bank. After completing a one-page form that included a few questions about her personal and business finances, she got final approval and received a supply of checks to draw on her credit line. Recently, she wrote a check to pay an $8,000 repair bill on a car-crushing unit. For the convenience, Fletcher was willing to pay two percentage points more to Wells than she was paying at her local bank. "It's easy to access the money, and I'm at liberty to use it any way I want," she says.

Wells Fargo is leading a revolution in the way loans are made to the nation's smallest businesses. Business lenders have finally learned how to apply the computerized, statistics-based methods long used in the credit-card indu for evaluating individual borrowers fact, credit scoring, as this metho known, is the cornerstone of a sn business lending strategy at Wells go that has helped propel it into top ranks of U.S. mom-and-pop l ing. Last year, Wells earned $108 mi on small-business lending, up 61% f 1994, generating a stellar 32% re on equity on this portfolio.

With credit scoring, lenders identi few key items, such as the own record in paying off personal debts, predict the likelihood a business ov will repay. Not only is the techn making it easier for small businesse get credit, but, experts say, it also enable big banks to make inroad community bankers' traditional mar By slashing application processing t from an average of 12 hours to 15 utes, credit scoring and computer cessing have made it profitable for l ers such as Wells Fargo to c business credit lines in amounts as s as $5,000, according to Fair, Isaa Co., a leading developer of such tems, based in San Rafael, Calif.

CONCERN OVER FRAUD. Some exp worry how these business loans perform in an economic slump, w small-business failures rise shar "That's the biggest concern," conc Michael K. Noles, who heads busi credit at Advanta Financial Corp Salt Lake City credit-card comp Lucy Reid, chief of small-business rect marketing at Wells Fargo, says isn't worried about delinquencies. know they're coming, but the pri covers them," she insi

Fraud is another cern. An ex-Wells Fa employee familiar with ly versions of the sys says those programs difficulty catching fra The controls "didn't w so well." Initially, Reid mits, "we were extrer worried. We're no lor as worried."

Although credit sco is more than th decades old, Wells Fa in 1993 became the U.S. lender to apply i a large scale to small-b ness lending, according Rawy R. Shediac, se vice-president of F Isaac. The system

Wells Fargo's Winning Small-Business Loan Strategy

The Bay Area bank's pioneering use of computerized, statistical methods for making small-business loans has helped propel it into the top ranks of U.S. mom-and-pop lenders

THE PLUSES	THE MINUSES
• Makes small loans more widely available	• Is untested in an economic downturn
• Boosts profitability by cutting costs and paperwork	• Could encourage excessive small-business borrowing
• Offers lower rates to superior credit risks	• Increases vulnerability to fraud
• Could reduce discrimination against women and minorities	• Doesn't work well with complex credits

ched in California, and rolled out onally in early 1995. Until then, the mon view was that small businesses e so tough to analyze that local kers had to deal with borrowers face ace to make sound loans.

Vells Fargo plunged heavily into ll-business lending by designing an pensive, assembly-line processing em that minimized human interven- "We're absolutely religious about s," says Vice-Chairman Terri Dial, l of small-business lending. A bank- ets involved only to give final ap- al. Adding a few wrinkles to Fair, c's basic scoring system, the bank eloped software that assigned an unt and interest rate to a prospec- borrower. The riskiest applicants offered the smallest credit lines and ged the highest interest rates.

lthough about 170 lenders, includ- 21 of the nation's top 25 banks, use Fair, Isaac's scoring software rocess small-business loan applica- s, only a handful, such as Wells and anta, regularly use direct mail and marketing to reach customers re they have no offices. Until its -completed acquisition of California l First Interstate Bancorp., Wells go had branches only in California. it lent to small businesses in all 50 es. Last year, Reid says, Wells ed out five million offers across the .

OP LENDER. Thanks to national mar- ng and the First Interstate pur- se, Wells is likely to emerge this as banking's top mom-and-pop er. Last year, its share of small- ness loans held by California banks ed to 16% from 1% in 1989, accord- to the Federal Reserve. Although ls Fargo ranked 17th in size among . banks last year, it was fifth in ness loans under $100,000, with $880 ion outstanding at the end of June, rding to Sheshunoff Information vices.

Vells's initiative may be bad news community banks. The new methods vide small business a credit option hout being vulnerable to the idio- crasies of the local bank," says Vik- Capoor, a Washington-based con- ant with the Advisory Board npany. But William M. Reid, presi- t of The Mechanics Bank in Rich- d, Calif., isn't worried. "Our cus- ers have access to me," he says.

Eventually, if delinquencies rise and petitors catch up, Wells's lofty re- s will surely dip. But whatever hap- s to Wells's profits, fewer small-busi- s owners will have make that aded trip, hat in hand, to the corner k.

Sam Zuckerman in San Francisco

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America needs more trees

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We need more trees around our homes and throughout our communities. We need more trees to protect our farm fields and our rivers and streams. To provide wood for our homes and a thousand products we use every day.

10 Free Trees

The National Arbor Day Foundation, the world's largest tree-planting environmental organization, is sponsoring its Trees for America campaign to plant millions of trees.

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Your trees will be shipped postpaid at the right time for planting in your area, February through May in the spring or October through mid December in the fall. The six to twelve inch trees are guaranteed to grow, or they will be replaced free.

You will also receive The Tree Book with information about tree planting and care.

To become a member of the Foundation and receive your free trees, send a $10 contribution to Ten Blue Spruces, National Arbor Day Foundation, 100 Arbor Avenue, Nebraska City, NE 68410.

Join today, and plant your Trees for America!

The National Arbor Day Foundation

THIS BULL HAS ONE EYE ON THE POLITICIANS

If Turkey's government stumbles, so will its bourse

Relieved that five months of political instability seemed over, buyers plunged into Turkey's stock market at the end of February. Their euphoria was triggered by the prospect that two center-right parties would form the next government. By the end of March, the Istanbul stock exchange's composite index had risen a stunning 41% in dollar terms for the year, the best first-quarter performance of any stock market in the world.

Although the Turkish market is notoriously volatile, it has been in the doldrums since 1994, when a devaluation of the lira triggered a deep recession. So the latest takeoff got the attention of emerging-markets aficionados who wondered whether Turkish stocks were going to repeat their 1993 performance, when they led world bourses with a 200% advance. Morgan Stanley & Co. Managing Director Barton M. Biggs is one global strategist who is advising investors to overweight Turkey in their portfolios.

POWER VACUUM. Recently, however, the rally has slowed as doubts cropped up about the new government's effectiveness. Power is now divided between Prime Minister Mesut Yilmaz' Motherland Party and that of his predecessor, Tansu Çiller's True Path Party. The two leaders have never been on good terms. Their main shared interest has been in keeping the Refah Party, which took the largest bloc of parliamentary seats in December's general election, out of power. Investors worry about pro-Islamic Refah's protectionist, anti-Western policies.

Soaring interest rates have also helped cool the sizzling market. Annual rates on Treasury bills rose from 112% to 150% over the past month because of renewed political doubts and worries about the huge budget deficit. The government must refinance $4.9 billion in domestic debt payments due in April alone. Debt service costs, which already consume one quarter of Turkey's budget, are being driven up by a budget deficit that rose to $14 billion in 1995 and is expected to go higher in 1996. Eli Koen, an analyst at Lehman Brothers in London, expects the stock market to level off or even drop in April as the refinancing pushes up interest rates.

RISING STOCK: *Publisher Hürriyet has boosted circulation*

The outlook mostly depends on the politicians, analysts say. Quick action on appointing new chiefs for the central bank, treasury, and privatization administration is needed to restore flagging confidence among investors. Haggling over the posts between Yilmaz and Çiller has kept these jobs open for weeks. "Until these appointments are made, there will be a power vacuum that will allow banks to keep pressing for higher interest rates," says Steve Burnham, an analyst at Bender Securities in Istanbul. Last year, the economy overheated, with a 7.8% jump in the country's gross national product which fueled by massive government out This year, economists expect growth if the government manag curb spending.

The coalition has vowed to trir flation, which ran at an 85% an rate in the first quarter, accele long-stalled privatizations, and c haul both the social security and systems. But such moves will be t because the coalition is short of a jority in the Turkish parliament depends on leftist parties to pass islation. But most observers expec coalition to hold together at least the end of the year. "There really any alternative," says Ilter Tura political scientist at Istanbul's Koc versity. "Early elections would prob produce similar results [to the De ber poll], and once again Mother and True Path would have to fo coalition."

BARGAINS. Meanwhile, other factor sides politics are also prope Turkey's stock market higher. Inve expect that inflation will slow s what, to 75% to 80%. And some Turkish stocks as bargains. The I bul stock exchange's price-earning tio of 7.6—after inflation—compare vorably with the price-earnings r of other emerging stock markets as Malaysia (20.5) and Brazil (1 The market could get a renewed b from first-quarter corporate earr that are expected to be strong. Ar the stocks that have performed so far are the shares of media co nies such as newspaper publisher riyet, which has boo its circulation thro aggressive promot Its stock is up r than 100% in local rency terms so far year. Banks such as Kredi Bank, which profiting from high terest rates, are als tracting investors.

WILL TURKEY'S STOCKS KEEP CHARGING?

DATA BLOOMBERG FINANCIAL MARKETS

The consensus an analysts is that the tanbul exchange will another 15% to 20 dollar terms this y with some analysts predicting n higher gains. But if political para sets in, the winter bull run will soo just a distant memory.

By John Doxey in Ista

Inflation is cooling, price-earnings ratios are low, and first-quarter earnings should be strong

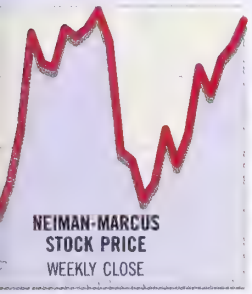
GENE G. MARCIAL

AHRAINI EYES MAY E ON THIS BAUBLE

you've ever seen a snazzy Neiman Iarcus Christmas catalog, you know one-of-a-kind gifts this upscale de-tment store is famous for. Now, ne pros insist that the stock of iman-Marcus Group (NMG), which ns Neiman Marcus and Bergdorf odman, will be the kind of gift Wall eet hankers after.

They think deep-pocketed Investcorp ernational, the Bahrain investment nk that owns Saks Fifth Avenue, is

A PRICIER PURCHASE



OCT 30, '95 APR. 2, '96
DOLLARS

EARNINGS PER SHARE*	
1997 Est.	$1.45
1996 Est	$1.17
1995 Est.	$1.01
1994	96¢
1993	78¢

*FISCAL YEAR ENDS JULY 31

ATA: BLOOMBERG FINANCIAL MARKETS, ZACKS INVESTMENT RESEARCH

ing the company. Investcorp also ned Gucci Group before it sold the lian luxury-goods retailer in a public ering last October. Investcorp plans take Saks public this summer.

Investcorp's spectacular gains from cci and Saks "appear to have whet- l its appetite for fancy stores that er to the affluent—exactly what iman-Marcus represents," says an nerican banker who used to be at vestcorp.

Some money managers reckon that vestcorp may have already ap- oached book publisher Harcourt Gen- l (formerly General Cinema) for all or t of its 65% stake in Neiman. But ey're not sure Harcourt Chairman chard Smith is in any mood to sell.

"From what I know of Smith's style, d prefer to see Neiman grow on its n—and then maybe have Harcourt quire the rest of the shares," says ue investor Mark Boyar, who owns s than 5% of Neiman's shares. With stock now trading at 22 a share, eiman could climb to 30 in no time sed solely on its earnings potential," ys Boyar.

Mario Gabelli, whose funds own a combined 14% of Neiman, says that the company is one of the "most undervalued specialty retailers around." Furthermore, "one day Harcourt may just decide to buy all of Neiman," says Gabelli, who figures the stock is worth 35 to 40.

Investcorp spokesman Lawrence Kessler says the group has bought no Neiman shares and that he isn't aware of plans to acquire any. A Harcourt spokesman says Neiman is very well positioned to grow strongly but won't comment on whether Harcourt has been approached by a suitor for Neiman.

MALIGNANCY IN THESE ACCOUNTS?

Shares of Physician Reliance Network (PHYN), which went public at 14 in November, 1994, were hot, streaking to 47 by Feb. 2, 1996. The company is the largest network of cancer specialists—providing management, facilities, technical support, and ancillary services for outpatient care. On Mar. 27, the company filed a notice to sell 2.6 million shares, and the stock slipped. It is now at 39. One pro thinks it's headed even lower.

Corporate sleuth Howard Schilit of the Center for Financial Research & Analysis has called into question what he calls certain "interlocking" transactions between the company's top brass and a group of specialists known as Texas Oncology PA (TOPA), which initially owned the company before it went public. TOPA's ownership has since dropped to 36%.

Schilit finds "especially troubling" the sale of pharmaceutical and medical supplies to TOPA by the company, for which TOPA makes no cash payments to Physician Reliance. Schilit says in effect the company reimburses TOPA for the payments that TOPA hasn't made.

"The net result of the convoluted set of transactions is to provide TOPA with a cash advance," says Schilit. "The company identifies the transaction as a sale, but we believe it isn't," he says. The company bills the TOPA patient for the medicine or supplies and records the revenue for the second time, says Schilit, and a corresponding profit. The company, he says, then eliminates revenues and expenses generated by the earlier TOPA transaction, leaving on its income statement only the profits from the sale to the patient.

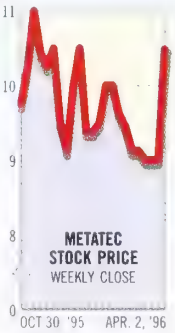
Schilit thinks the company's way of doing business with the doctors won't pass regulatory scrutiny. He criticizes the two-tier shareholder structure, with the TOPA reaping benefits and non-TOPA holders "bearing undue risks." Dr. Merrick Reese, Physician Reliance CEO, brands Schilit's interpretation as "misleading, inflammatory, and not based on the facts."

WHY METATEC IS SAYING 'WOW!'

All eyes are on companies linked to the Internet. Many such stocks have already fizzled or burned out. David Simons, managing director of Digital Video Investments, thinks he has discovered a "down-to-earth cyberspace play" that's practically undiscovered: Metatec (META), a maker of CD-ROMs. Its shares have stayed between 8 and 12 and are currently at 10. One market chartist describes the stock as "ready to break out on the upside."

Simons agrees: Based on Metatec's rapid growth plus a potentially explosive product, he's convinced the stock will double in a year or two. Here's why: Metatec is producing the CD-ROMs used to distribute WOW!, the online service of CompuServe. This could give a neat boost to earnings, figures Simons. WOW! should add about 1¢ a share (in aftertax earnings) for every 1 million disks that it presses, and CompuServe, he calculates, could well distribute 10 million in 1996.

ONLINE BOOSTS THE BOTTOM LINE



DATA: BLOOMBERG FINANCIAL MARKETS

So Simons estimates Metatec will make 65¢ a share this year and 90¢ to 95¢ next, up from last year's 43¢. He expects CompuServe to launch a massive push for WOW!. Since 1994, CompuServe has been using Metatec's CD-ROMs for some of the millions of starter kits it distributes each year. Metatec's founder and chairman, Jeff Wilkins, was cofounder of CompuServe. He sold CompuServe to H&R Block Group in 1980. Wilkins says the Internet will be a big growth area for Metatec.

SECOND ACTS

IS THAT ED ARTZT PUSHING PASTA?

The ex-P&G chief is writing a new recipe for Italy's Barilla

Before Edwin Lewis Artzt retired as Procter & Gamble Co.'s chief executive officer last July, one thing he looked forward to was dedicating more time to his vegetable garden in Cincinnati. "When I got home after being on the road for so long, I would plant a little, make a little pasta, and a little pasta sauce with the fresh vegetables from the garden," he says. "It was kind of fun."

What he didn't plan on was dedicating 125 days a year to pasta and pasta sauce. Surprising himself as well as his friends, the 66-year-old Artzt last September became executive director of Italy's biggest noodle company, G&R Barilla & Sons, in the medieval city of Parma. There, he's doing what he enjoys even more than gardening—marketing premium brands around the world. "I loved it, I was good at it, and it's what got me where I got," he says, relaxing with a glass of local Lambrusco wine at his sparsely decorated 19th century apartment overlooking the Parma River.

SUNNY DAYS: *Artzt's job in Parma lets him focus on the work he loves*

GLOBAL VISION. Artzt is finding plenty to love at Barilla, whose pricey noodles and bakery goods have been losing out to cheaper brands and private labels. Although Barilla is Italy's top pasta maker, with 30% of the market, its profits plunged more than 50% over the last three years on flat revenues. Last year, it earned a measly $37.5 million on sales of $2.06 billion. With an unseasoned generation of managers at the helm of the family-owned company, Artzt was hired to spice up marketing and oversee plans to expand globally.

He didn't jump at the job. Since the death of Pietro Barilla in 1993, the company has been headed by his three sons—Guido, Luca, and Paolo Barilla—all in their 30s. (The family sold Barilla to W. R. Grace & Co. in 1971, then, with Zurich-based Bürhle, bought it back in 1979.) When the brothers approached Artzt, "he was a little astonished," says Chairman Guido Barilla. Artzt first turned them down, worried he wouldn't have time for his many commitments: He is a director not only of P&G but of Delta, American Express, GTE, and Teradyne, as well as four business schools.

When Artzt offered to pitch in some consulting, he recalls: "They to me: 'We don't need a consultant need a leader.' And that made me good—it's probably what convinced to accept their offer in the end." cially, Artzt works 12 days a m planning long-term strategy, but he resist getting involved in adverti hiring, and even accounting, says Financial Officer Barry Botello. though he still spends some tim New York and Cincinnati, Artzt, ran P&G's European operations o Brussels from to 1980, is cle settling back Europe. Divo last year, he is gaged to a Ger woman, Marie I Hessel.

Barilla, for part, had choice but to fi new recipe. In where Barilla 85% of its sales past three y have seen an e sion of small count outlets. private-label pa priced about below pren brands, snatched 15% o market, and t tional retailers been pressing n brand producer drop prices. Artzt, it's a fam scenario. "I've it happen on pers, detergents, certain health- products," he says. "Consumers are coming more value-conscious thro out Europe and the world."

The rescue plan he cooked up many of the ingredients he empl to pump up P&G's premium brand February, he slashed prices an ave of 12% to narrow the gap with che products and wiped out costly pr tions aimed at consumers. He h Wahib Zaki, the retired head of European Health & Beauty unit, to up Barilla's consumer research.

Artzt is also drawing on his 41 y of experience at P&G to redirect keting. While Barilla's old ads foc softly on brand image, its new ads try to convince people that its prod are better than rivals'. It won't be "Once consumers try discounters' p

A TASTY NEW GIG

COMPANY G&R Barilla & Sons

FOUNDED 1877, by Pietro Barilla Sr.

BASED Parma, Italy

PRODUCTS Pasta, pasta sauces, bakery products

1995 PROFITS $37.5 million, on revenues of $2.06 billion

OWNED 51% Barilla family, 49% Zurich-based Bürhle

DATA: BW

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they find the stuff isn't that much different from Barilla," notes Luca Solca, a consultant with Booz, Allen & Hamilton Inc. in London. "Barilla is going to have to come up with a new way of distinguishing its products to regain a competitive edge." To improve its product range and quality, the company is now building a $40 million, high-tech egg-pasta plant.

Artzt's biggest challenge, however, is to turn Barilla into a global contender. With Italians shoveling in an average of 62 pounds of pasta a year, the home market has reached saturation. So Artzt, who masterminded P&G's successful international expansion, plans to increase exports of Barilla brand pasta and sauces—counting baked goods, the company has six brands—from 15% of sales to 50% over five years. In the U.S., the company is better known for its sauces, which are produced and distributed by Campbell Soup Co. Taking a bigger bite of the U.S. market, where Barilla's pasta sales are a mere $10 million, is key, Artzt says.

RADIO CAMPAIGN. To get Americans to buy "what seems to be just another Italian-sounding pasta brand," New York-based Grey Advertising Inc. is staging a nationwide radio campaign in which celebrity broadcasters hawk the brand. A TV campaign will follow, Artzt says.

For an outsider working for a family-owned company, Artzt enjoys surprising freedom. "We are not going to get in his way," says Chairman Guido Barilla, who has been conducting meetings in English since Artzt's arrival. And Artzt has been spared the dirty work of restructuring that earned him a reputation as a brutal cost-cutter and head-chopper at P&G. Barilla announced the closing of three plants and cut prices by 10% in 1994, and it laid off 1,000 workers from 1993 to 1995, before Artzt arrived.

Artzt's new mission has stunned his friends. "Nobody with a blank sheet of paper and three guesses would ever have come up with that," says O. Milton Gossett, chairman emeritus of Saatchi & Saatchi Advertising Worldwide. It even surprised Artzt, who says he never made definite plans for retirement—"no super vacations, or time off, or anything." But he knew he didn't want another major CEO position, partly because he found many of the attendant duties, such as handling government and legal issues, tiresome.

Now Artzt says he's starting a second life in Parma—and a second garden on his terrace. It will take an expert hand and some fine weather, though, before the seeds he sows in Italy produce the results he wants to see.

By Silvia Sansoni in Parma, Italy, with Zachary Schiller in Cleveland

UNIONS

WHAT LABOR PROBLEM?

GM and the UAW are closer than you may think

On the surface, General Motors Corp.'s labor relations are looking pretty bleak. The 17-day strike at the company's auto-parts plant in Dayton, Ohio, turned into a nasty showdown that shut 26 GM assembly plants. For GM, the battle involved the company's right to buy components from subcontractors, which is key to its aggressive cost-cutting efforts. United Auto Workers President Stephen P. Yokich seems equally determined to curb outsourcing when the current labor pact expires in September.

Indeed, 1996 might seem to be shaping up as a rerun of the contentious contract talks of 1993. Then, the company's core North American operations were awash in red ink, and its labor cost per vehicle, at $2,300, was a stunning $800 more than rival Ford Motor Co.'s. And as the most vertically integrated of the Big Three, GM was saddled with parts plants whose workers cost up to twice as much as those of some outside suppliers.

Look behind the superheated rhetoric about Dayton, though, and GM's labor situation doesn't seem nearly so dire. In fact, the No. 1 auto maker has made tremendous strides in its U.S. productivity, which has soared by 35% since 1992. The company also has held its hourly labor cost increases to half the pace expected three years ago (charts). This has slashed GM's labor cost per car by 13%. Of course, other carmakers haven't sat still either, so GM spends the most on labor. But the gap now is below $400 and falling, lysts say. And while Delphi Automo System, GM's parts unit, still pays m for labor than some rivals, it now m money and even has boosted sale non-GM customers to nearly a quarte its $28 billion annual revenues. "G much leaner than people realize," Sean McAlinden, a University of M gan economist.

SCAPEGOAT. In this light, the Da brouhaha looks more like a strike got out of hand than a foretaste long, hot summer of bargaining. E tight UAW restrictions on outsour would leave the company other opt for boosting efficiency, albeit at a s er pace. Then there's the UAW's his of backing off from demands for bla job guarantees and accepting wage

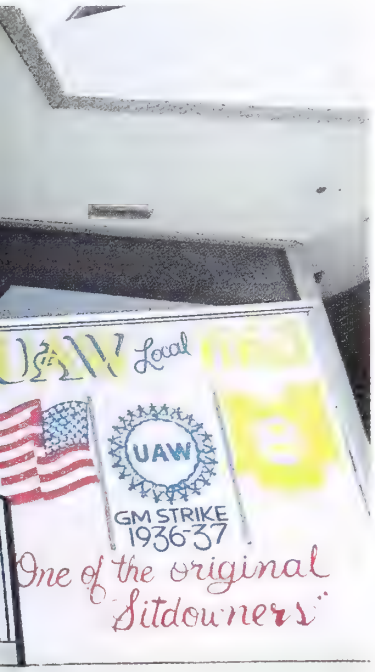
NEW RULES: *Workers in Anderson, Ind., O.K.'d an accord*

GM could lose flexibility from labor if it goes to the mat over outsourcing

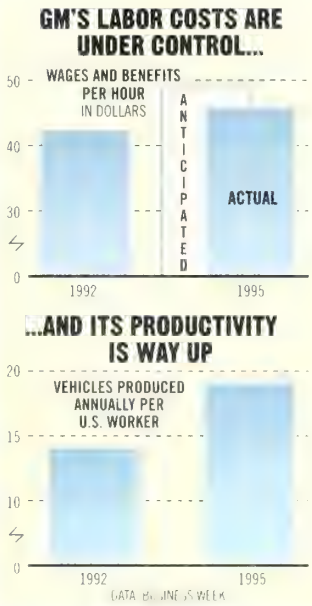
ons for current members instead. ll, the two sides may be able to ac- nodate each other after all—and l a disastrous strike. "The parts ations have become a convenient egoat at GM," says Susan Helper, conomics professor at Case Western rve University.

ertainly, GM is in far better shape when it last penned a pact with nion. In the 1993 deal, the compa- total hourly labor costs were ex- ed to jump by 16% over three s. But that didn't happen, in part use the booming stock market ed pension coffers and lowered the nt GM is required to kick in each And the company kept down th-care costs, which have barely since 1993. So GM's hourly wage benefit costs have grown by only o $45, about in line with inflation, 1993.

has improved productivity, too. company's U.S. blue-collar employ- has dropped from 256,000 in 1992 0,000, in part because of plant clos- and an early-retirement package cut 16,000 union workers from the oll. The company also reengineered plants and new cars to make them r to build. This jacked up produc- from 14 vehicles per worker in 1992 to 19 today, compared to 33 at Ford and 25 at Chrysler. That doesn't sound like much of an improvement. But because Ford and Chrysler buy so many more parts from suppliers, their workers assemble much less of each vehicle.



Delphi has made giant strides along with the rest of the company. Although GM doesn't break out cost figures for Delphi, President J.T. Battenberg III has said that the 194-plant division has whittled its unprofitable U.S. facilities from 50 to 14 since 1993. It has sold or closed 7 plants and dropped or sold 43 product lines, including axles, electric motors, and vacuum pumps. The result: Delphi has been profitable for the past three years.



In fact, Delphi now is in such good shape that it is expanding its non-GM market share. Battenberg has launched an ambitious overseas expansion that generated 21 joint ventures and acquisitions in 1995 alone, including moves into China and India. Last year, Delphi's sales shot up by 27% in Asia, 25% in Europe, and 37% in South America. Delphi also has won new business in the U.S. Overall, 25% of the unit's sales now go to non-GM customers. "We've shaken our dinosaur image," says Battenberg.

NO SALE. If Delphi has turned around, why did GM lock horns with the UAW in Dayton? For one thing, Delphi still has not met GM Chairman John F. Smith Jr.'s 5% profit-margin goal, Battenberg has said. Also, outsourcing often is a cheaper way to get parts than pouring money into an existing plant. In Dayton, the UAW wanted management to invest in new technology rather than buy antilock brakes from German maker Robert Bosch. While GM ended up giving the brake work to Bosch, it also agreed to upgrade Dayton's technology.

But GM says it can't afford to pump capital into every plant, especially if other companies already make the part. "You only have so much capital, and you want the highest rate of return," says McAlinden. He estimates that GM's productivity in parts grows less than a 1% a year; most of its investment is targeted for product design, engineering, and core manufacturing operations.

Still, going to the mat over outsourcing could prove to be counterproductive if GM winds up battling with union locals on efficiency gains. Even as the Dayton strike flared, union leaders at other troubled plants continued regular meetings with management on work rules and other changes to improve productivity. On Mar. 29, UAW members at Local 663 in Anderson, Ind., approved a new local agreement that allows managers more flexibility to shift workers between jobs in exchange for a GM pledge not to sell the factory for three years. "We hope it will make us more competitive," says Dave Petry, a union official at the Anderson plant, which supplies some 90% of GM's interior lighting.

While the outsourcing issue likely will flare up again, there's precedent for a peaceful autumn. Look at 1987, when cash-rich Ford guaranteed all jobs then held by UAW members for three years. This caused near-panic at GM, whose bloated costs and unappealing product lines had allowed rivals to devour its market share. The union averted a strike at GM by leaving plenty of escape clauses in the Ford deal, including the right to buy out workers near retirement and to cut positions left open by attrition. The man who cut the deal: UAW President Yokich, who then headed the union's Ford unit.

This time around, Chrysler executives already have said they might agree to outsourcing restrictions. That would trigger another panic at GM, since the union would insist that rivals follow the pattern set at Chrysler. But again, there are possible loopholes, such as excluding the closures or sale of entire product lines or plants. GM will do what it can to prevent limits on outsourcing. Given the progress the company has made on labor costs so far, though, a confrontation may not serve its interests as much as the recent Dayton conflict might suggest.

By Bill Vlasic in Detroit

THE INTERNET

A SAFETY NET FOR NET SURFERS

Nonprofits are offering low-cost access and information

The Internet is humming nicely this afternoon on East Harlem's 112th Street. Saul Bonilla's triplet sons are here, surfing again, their third visit in a week. Their school has no personal computers, and the machine at home is broken. So this little storefront, run by a nonprofit community group called Playing to Win, is where the Bonilla kids go online: Today, Anthony experiments with "Goosebumps," an edutainment site, while Ariel and Saul Jr. play games.

HARLEM I-WAY: *Playing to Win's storefront site in New York*

Playing to Win serves 308 mostly low-income families, each of which pays $35 for six months of computer access. It is one of perhaps 1,000 rapidly growing community-based organizations that provide entry to the Information Superhighway at little or no cost. "We're an economic safety net for those who can't afford more," says Steve Snow, project director of Charlotte's Web, a group in Charlotte, N.C.

The Internet is a remarkably democratic bit of technology, allowing relatively low-cost passage to a global array of information and services. But you have to have a computer, a modem, and some command of the technology to play. Nonprofit Internet service providers (ISPs), operating with a hodgepodge of public and private funds, give people access to computer hardware and phone lines, some training, and typically, a range of online community-oriented programs.

ESSENTIAL SKILLS. Such groups now serve perhaps 600,000 Americans, estimates Douglas Schuler, author of the book *New Community Networks: Wired for Change*. The idea is that by promoting electronic literacy, they can help everyone—but especially the poor—get the skills they need to compete for jobs and fully participate in society. That's why the Clinton Administration has sunk $60 million into community initiatives over two years through the Commerce Dept.'s National Telecommunications & Information Administration (NTIA).

The funding allows Doreatha Daniels, a 22-year-old secretary, to alert neighbors of nearby crimes in progress via a computer in her Newark (N.J.) housing project. Making Healthy Music, a local nonprofit, has given 20 PCs to Newark residents who agree to share the machines with neighbors. Charlotte's Web has its own World Wide Web index as well as local job listings that he Mark Richardson, 27 and unemplo apply for work as a cook from his h at Charlotte's Uptown Shelter-Ge Shinn Center.

Indeed, community-based ISPs d er a broad range of local content competing commercial providers avoided as too costly (table). The q tion: Is this something the governm should be paying for? Robert Sr vice-president of Ame Online Inc.'s Digital thinks "anything that cates the user base i advantage," and certa computer-literate pe are more likely to pay commercial services so day. But some critic "corporate welfare" t companies such as should help pay freight—one reason Administration's $100 lion funding proposal NTIA in 1996 got sla to $21 million.

FREE RIDE? Comme ISPs, meanwhile, a that they are being un ly undercut by gov ment-subsidized community netwo During a recent flood in Salem, pharmacist Stephen Quisenberry information on street closings and water via a Web site constructe the Salem Public Library Inte Project, which recently won $284 in federal grants. Quisenberry, wh not poor, pays $5 for 30 hours of access a month—well below the charged by CyberHighways of Sale local commercial rival. The libra service has 1,000 subscribers, do that of CyberHighways. Says And Fields, CyberHighways' presid "Salem Library is using gov ment money to infect and inv the private sector."

Counters George Happ, dire of the Salem Public Library: "B nesspeople here pay property ta Why shouldn't they benefit f low-cost Internet access?" If fe al funding withers, though, pro ty taxes alone aren't likely support an Internet access gram—and the community-ba groups may have to rely on c mercial funding. That could thr en the twin goals of the nonpro keeping content truly local keeping everyone plugged in.

By Louise Nameth in New

THE NET'S COMMUNITY CORNERS

Services offered to subscribers of local Free-Net projects:

LEAP (New Haven) List of drop-off points for local children's charity drive

LOS ANGELES FREE-NET Answers and referrals from local medical professionals to patients' queries

MAKING HEALTHY MUSIC (Newark, N.J.) Neighborhood crime-watch information

SALEM PUBLIC LIBRARY INTERNET PROJECT (Salem, Ore.) Emergency flood information, including local street closures

"Whatever it takes, wherever it takes us — drilling on land, off-shore, vertically, horizontally — we add value to our customers' gas and oil business," says Gene Isenberg, CEO of Nabors Industries, listed on the AMEX since 1951. "And we get value from being on the AMEX. We're visible as a $1 billion company, and AMEX industry conferences and programs keep our 131 institutional holders informed about our growth and our prospects." **GENE ISENBERG IS BIG ON THE AMEX.**

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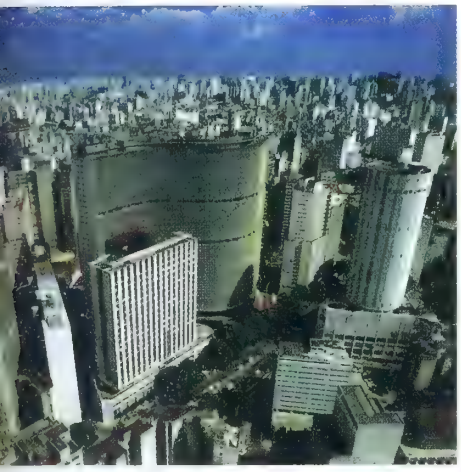
The 1996 Business Week Forum

Brazil Today

Booming Industry In A Free-Market Economy



business district
io Paulo alongside
unforgettable vista of
fogo Bay, Rio.

"What has been called 'the country of the future' is, in fact, starting to live up to its 'future'—today. During the 1980s Brazil was perceived as an unreliable and unpredictable country, with an unstable economy, numerous economic plans, and short-lived policies. The recent changes that have taken place in Brazil have put my country firmly on a road from which there is no looking back."

With that salute to his can-do country, **João Sá**, Chairman of the Brazil Section of the Brazil-U.S. Business Council, opened The 1996 Business Week Forum, BRAZIL TODAY.

Mixing realism with optimism, speakers told the comeback story of Latin America's largest nation as it cleans up its debts, privatizes state-run enterprises, builds much-needed infrastructure, and sets a new course of economic growth.

Roger Dorf, Chairman of the U.S. Section of the Brazil-U.S. Business Council, called it simply "the winds of change."

More than anything, the new Brazil now operates a free-market economy that is opening its borders to global competition. Today products made elsewhere—in the U.S., Europe, and Asia—are vying with the homegrown variety in supermarkets and stores in cities such as São Paulo, Rio, Pórto Alegre, and Brasilia. "Import substitution," the vaunted policy of keeping foreign goods out, is now in Brazil's scrap heap.

Taking advantage of a new era of openess where the best-quality products and fairest prices win, are the auto, electronic, and other consumer-goods industries that have been fueled by a flood of foreign investment. São Paulo, Latin America's biggest city and Brazil's business hub, has never seen such a massive commitment of U.S. and other foreign funds to construct new plants and streamline or expand old ones.

No wonder that **Adyr da Silva**, President of Infraero, which manages Brazil's extensive network of more than 60 airports, could tell the Forum's rapt audience, "We have jaguars in Latin America just as clever as those Asian tigers." One of them is the 10th largest industrial economy in the world—Brazil, now on a roll.

But are Americans, Europeans, Asians, and others aware of Brazil's new place in the industrial sun? Sounding a cautionary note, **Luiz F. Forbes,** President of the Brazilian-American Chamber of Commerce, bluntly stated, "We need better marketing."

Paul Burnham
ney

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The 1996 Business Week Brazil Today Forum

Dorothéa Werneck
Minister of Industry, Trade, and Tourism, Brazil

Pushing The Innovation Button

"To develop new industrial capacity, the big priority is new investment," said **Dorothéa Werneck**, Minister of Industry, Trade, and Tourism for Brazil. "The second is innovation. After the initial rise in productivity caused by the opening of the economy, there's inevitably a slowdown."

So, what follows? "A Brazilian design program," she said. "We need to add value to our exports. In so many cases, our products have the same quality, the same price as competing goods—but they're valued less because we don't have Brazilian designs and trademarks. Market chocolate instead of cocoa beans and furniture instead of wood."

But to Ms. Werneck, innovation means even more: "Today, we expect a growing number of Brazilian enterprises to participate in the globalized economy. And through the Brazilian Program of Quality and Productivity (PBQP), we have pushed enterprises toward higher standards of competitiveness.

"Last July a survey of the 100 largest foreign companies in Brazil revealed that 79 of them are investing a total of $28 billion in the 1995-99 period."

Selling Brazil's Sights

"In the past tourism never had top priorit Now Brazil is tackling this problem with a positive marketing strategy and good results. In 1995 the occupancy rate in five-star hotels was 97% in Rio and 80% in São Paulo. We must expand eco-tourism in places like the great forests of the Amazon. Right now tourism projects are on the books, from hotels and resorts to theme parks. And we're attracting capita from abroad."

Caio Carvalho
President, Office of Tourism, Brazil

The Numbers Look "Real" Good

Eliana Cardoso
Secretary for International Affairs, Brazil

With admirable precision and clarity, **Eliana Cardoso**, Secretary for International Affairs at Brazil's Ministry of Finance, shared the statistics that help give Brazil a new look in the eyes of the international business community.

Inflation: Triple-digit inflation was racking the economy with a "deleterious effect on income distribution and the poor." Now the rate is a tolerable 15%.

Tariffs: Levies on imports have declined from an average of 30% in 1990 to about 11%.

Investments: Last year portfolio investments amounted to $2.5 billion—a tribute to Brazil's "managerial expertise" and "better than hot money."

"We're not on automatic pilot," she conceded. "The growth rate is 4%, unemployment 5%. And import substitution is history. But," she added, referring to the niggling problems in implementing new policies, "I can't believe there's a love affair without fights."

The Pizzazz In Privatization

Privatization. It's the mantra of many governm around the world as they turn clumsy bureaucra into paying propositions. And now Brazil, too steadily dismantling many state-controlled co nies and organizations, both large and small.

Established in 1990, Brazil's Programa Nacional de Desestatizacao (PND) is makin progress—fast. Already, the steel, fertilizer, a petrochemical industries have thrown off th government shackles. PND Director **Elena Landau** told the Forum, with 33 companies vatized between 1990 and 1994. Even the sacred oil-and-gas industry is moving towar private distribution of its products.

The total proceeds from privatizations to date amounts to $13.5 billion. What's speeding the auction process is the recent creation of a National Privatization Board (CND). Its current targets: power utilities, financial institutions, mining companies.

Elena Landau
PND Director, Brazil

roads, and airports—some owned by the es rather than the national government in silia.

Not lost in all this is the vital telecommunica- s industry, now spending $30 billion in a to streamline and expand existing infra- cture—50% of which is from the private sec- Said Landau, "It's no more an ideological ate. We need privatization to make compa- more competitive, reduce the public debt, allocate capital more democratically."

e Slippery Slope Of Tax Reform

ing with Brazil's tax system—a maze of fed- state, and city levies—is not for the timid. From reporting forms to required legal documents, it has challenged the best and brightest corporate minds.

So it is good news that while excise taxes remain high—stratospheric for some products (90% for beverages, 330% for tobacco)—import duties have come down to a maximum rate of 70%, as **Celso C. Giacometti**, the São Paulo-based president of Arthur Andersen, told *Business Week* listeners, "There are now no restrictions on the importation of manufactured goods." And new ventures continue to get substantial tax exemptions, as well as companies that locate in the less-developed Northeast.

But the top story of 1996 is constitutional tax reform, along with restructuring of Brazil's

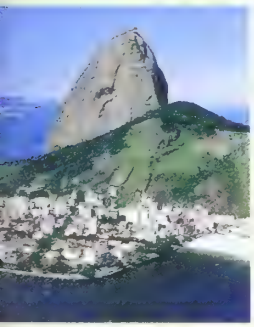
The 1996 Business Week Brazil Today Forum

BIG-TIME BRAZIL

A Nutshell

spite its economic difficulties in the last decade, Brazil has one of the highest economic growth es in the world and—over the past century—the highest growth rate in South America.

werhouse: Its gross domestic product (GDP) stands at $530 billion. The service sector domi- es—with 52% of GDP. Industry constitutes 35% of the economy while agriculture, with coffee far in the lead, amounts to 13%. Brazil's population of around 155 million, many of whom lived outside the market economy for decades, now adds up to a consumer powerhouse. It's not hard to see how four years from now, in 2000, the GDP should hit the $700-billion mark.



garloaf Mountain

Diversification: So diversified is the economy of Brazil—a country about the same size as the United States—that there is no over reliance on any specific crops or products. The economy's stability no longer hinges on the fortunes of coffee. And the product mix even includes sophisticated aircraft and military equipment. Not the least of the nation's attractions are natural resources, which run the gamut from oil and iron to gems.

obal Trader: Brazil's total external trade, including goods and services, will exceed $120 billion this ar. As a global trader the country deals with a wide range of products and partners. While the ropean Community, NAFTA, and Mercosul each account for about a fourth of total trade, Asian untries are beginning to loom large in the trade picture.

abilization: But Brazil's policy planners don't hide the sharp discrepancy in living standards between gions and even between districts within major cities. Therefore, a major goal of the government's al Plan, formulated by the ministries and agencies under **President Fernando Henrique ardoso**, is economic stabilization—a heretofore elusive target that now seems attainable.

THE SEARCH FOR QUALITY

"We had a closed economy with no competition, technological laziness, and widespread inefficiency. But since 1990 the search for quality has brought a dramatic change in our performance."

Gustavo Franco
Director,
International
Division,
Central Bank
of Brazil

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"Foreign trade has been one of the most dynamic sectors of the Brazilian economy. Our total trade should surpass $125 billion by the year 2000."

Mauricio Cortes Costa
Foreign Trade Secretary
Ministry of Industry, Trade, and Tourism, Brazil

Fair Warning: 'The Moment Is Now'

"Brazil today is a different country from what it was just five years ago," **Ronaldo Veirano**, senior partner at Baker & McKenzie's Rio office, told the Forum audience. "It has done a lot to become a modern nation."

"I remember when the Foreign Investors Group—which serves as an interface between the government and the foreign community—went to Brasilia to lobby to improve the ways of doing business in Brazil. Well, we got liberalization. You can do some of that by edict. But most important we saw a change in the attitude of the government."

"That's also true of Brazilian society as a whole," Veirano went on to say. "It no longer tolerates high inflation and corruption. Brazilian business is now competing with imported products almost on an equal basis. And foreign companies are no longer treated as second-class citizens."

"Mining money that had been going to Peru has been pouring into Brazil. And the same is beginning to happen in telecommunications—we're on the verge of opening a cellular market."

"If you're looking for opportunities to grow and expand," Veirano concluded, "The moment is now."

social security system and government administration. The tax-reform objectives:

- Reduce the number of taxes, regulations, and bookkeeping burdens for companies.
- Increase the number of taxpayers and reduce tax evasion.
- Lower taxes on exports.
- Harmonize the tax system to help minimize bickering and overlapping between states.

Altogether, a tall order. As Giacometti cautioned, "Intense negotiations will take place before final proposals are agreed upon. Tax reform will come gradually."

How Mercosul Works Its Magic

For three decades after the Montevideo Treaty of 1960, Brazil inched toward the goal of a Latin American free trade area or—short of that—a regional customs union.

In 1991 came the breakthrough with the decision to create Mercosul. A trade partnership of Brazil, Argentina, Uruguay, and Paraguay, Mercosul put aside traditional rivalries and joined hands in "an unprecedented initiative," **Luiz Felipe Lampreia**, Brazil's Minister of Foreign Affairs, told the Forum. The 2000 Program, approved last December, aim to remove—or harmonize—all remaining tariffs and non-tariff barriers amor Mercosul members The customs unio the minister explained, has been a boon to both prod ers and consumers No longer artificial protected, the Braz ian auto industry—example—is turnir out 1.5-million veh cles per year and, l some estimates, co be the fifth largest producer in the wo by the year 2000. And car buyers no have a choice betw locally produced models and compa ble imports.

Luiz Felipe Lampreia
Minister of Foreign Affairs, Brazil

Next on Mercos agenda: linkups wi neighboring count and—ultimately—with a Free Trade Area of the Americ (FTAA) by the yea 2005.

Asked why Mercosul favored "open regionalism" that would lead to larger free-trade groupings, the minister said candi "If you stand still, you fall behind. That's the name of the game. In five years we've gone fro one of the most closed economies to one of th most open."

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Words Of A Take-Off And Landing Champion About A Great Business.

Edson Arantes do Nascimento (Pelé) -- Minister for Sports.

"Airports: this is a business I know as well as I know soccer. I can say this as a player, as a businessman, and as a Minister, because if I counted the miles I've flown so far, I certainly could have flown to the Moon and back. And if I did not have any choice and had to stay in an airport for hours, I would pray that it be one of those with all the amenities that passengers like me require: fully computerized, with a shopping center, a hotel, telecommunication facilities, etc. Well, this is just what Infraero has been doing in the 62 airports it manages in Brazil. In partnership with the business community, it is turning them into business, culture and leisure centers, in addition to modern intermodal terminals, for quick transfer of passengers or cargo. In 1995, 51 million passengers and 1.2 million tons of cargo went through these airports. 2.4 billion dollars are scheduled to be invested by Infraero in the next 5 years in the construction of new airports and in the on-going modernization and expansion of the present ones. Contact Infraero. You will get acquainted and do business with the people who, for 22 years, have been perfecting airport design, construction, operation and management technology in South America. As a Brazilian Minister and citizen, I am all for it. As a businessman, I recommend that you invest in a country which works, and provides results".

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EDITED BY AMY DUNKIN

YOUR PARENTS ARE AILING. NOW WHAT?

As a Citibank branch manager in Mamaroneck, N.Y., Lucille Alexander had little time to devote to herself, much less to her elderly parents and disabled sister living nearby. Until recently, she didn't have to worry. Her mother, 80, managed the household and cared for Alexander's sister and 81-year-old father, who suffers from Alzheimer's disease. Then her mother was diagnosed with Parkinson's disease.

Suddenly, Alexander was the primary caregiver for three adults. Finding help wasn't easy. But after an initial period of panic, she located an elder-law attorney who recommended a geriatric-care manager. "She recruited and screened caregivers until we found a wonderful woman, Josie, who became part of the family," Alexander says. "She knew the diseases my parents had and understood the kind of care they would need."

AGING COHORT. As the population ages, more adults are finding themselves in the unenviable position of becoming parents to their parents. In cases where constant assistance is needed, the choice for many people—if they can manage it financially—is to provide care in the home. Indeed, 5.6 million seniors receive home-health-care services today, five times as as those in nursing That number is likely to double over the next 30 years as baby boomers reach their golden years en masse.

The real jaw-dropper is that home health care can cost just as much as a private facility. And little of that expense, if a.y, is covered by Medicare, the federal government's endangered health-insurance program for seniors and some disabled individuals. Total costs for full-time, live-in health care average about $50,000 annually, according to Alfred Clapp, president of Financial Strategies & Services Corp., a New York City financial-planning company specializing in long-term care.

With cost and need rising in tandem, the sad reality is that home health care isn't affordable for average middle-class families unless they have planned ahead. With premiums that can top $1,200 a year between ages 50 and 60, long-term-care insurance policies that cover nursing-home or home-care costs are pricey—but that's nothing compared with how much the uninsured can end up paying out-of-pocket. "Increasingly, long-term-care insurance will be mandatory for people who can afford it," says Clapp, who advises checking out employer-sponsored group plans, many of which allow workers to extend coverage to their spouse and parents.

Even if financial resources are available, few people think about the particulars of arranging care for sick or infirm family members until they have to. Then, when disaster strikes, they don't have the foggiest idea where to turn. Two good places to start are with licensed home-health-care agencies and atric-care managers. agency—which should al be bonded and insured— plies the personnel and dles the payroll, taxes insurance costs. By contr geriatric-care manager independent agent wh oversee all aspects o case, from hiring and toring aides to accompa the senior to the docto fice. Currently, such p sionals are not licensed by midsummer, the Na Academy of Certified Managers will offer a c cation exam. In the mea look for a licensed nurse chologist, or social work

SAFE BETS. Using an a or care manager costs than if you hire help th the classified ads, but t generally the safest and comprehensive s of qualified assist The first thing th is assess the situ based on the phy social, and fin needs of the clien family. At any po at-home care i longer appropriat care manager wil help you with nu home placement. agencies and care agers will invest local services, su adult day-care an titlement prog such as Medicare handle the applic process. "Many t when people first to us, they are p privately for ser they would have fied for under sta county programs," Wendy Bier Leeds, owner of Care Connection Verona, N.J.

Then the geri care manager or, in the of an agency, a lic nurse, screens potential givers, leaving the ult hiring decision to the and family. Many se need a home-health-care to help with "custodial

Where to Turn for Elder-Care Help

MEDICARE (800 638-6833) lets you know what expenses, if any, are covered.

ELDERCARE LOCATOR (800 677-1116) finds community-assistance programs for seniors.

EMPLOYEE ASSISTANCE PROGRAMS through your job offer care options and referrals.

CHARITIES, FOUNDATIONS, AND RELIGIOUS GROUPS such as Jewish Board of Family & Children's Services (212 582-9100), Catholic Charities (800 886-4295), and the Alzheimer's Assn. (800 272-3900) give information on community services and support networks.

NATIONAL ASSOCIATION FOR HOME CARE will send *How To Choose A Home Care Agency* and a list of local providers. Write to 228 7th St. S.E., Washington, D.C. 20003.

NATIONAL ASSOCIATION OF PROFESSIONAL GERIATRIC CARE MANAGERS (520 881-8008) provides local referrals.

NATIONAL ACADEMY OF ELDER LAW ATTORNEYS (520 881-4005) lists specialists in your area. Sometimes the lawyers can recommend qualified financial planners.

NATIONAL ALLIANCE FOR CAREGIVING (301 718-8444) helps train family and professional caregivers.

NATIONAL HOSPICE ORGANIZATION (800 338-8619) lists services for the terminally ill.

s such as bathing, ng, and eating. Aides ained in how to care- nove fragile elderly pa- bathe them, and check blood pressure, says ah Brash, vice-presi- or clinical development sten Kimberly Quality- in Melville, N. Y.

e Medicare covers only l care, such as physical py or nursing, most e without long-term- insurance will end up g for custodial care selves. This expense ly adds up, so it's a idea to comparison For a list of providers, the Yellow Pages un- ome Health Services or t the National Associa- or Home Care in Wash- n (table). Agencies e $15 to $20 an hour e minimum level of cus- care. An elderly dia- for example, might 20 hours a week, so the y cost would be about according to Olsten erly. Skilled care may s high as $100 an hour.

AND ERROR. When you geriatric-care manager, s an extra salary to pay. it can be money well if elderly parents live way or have illnesses require special training ensitivity. An initial as- nent runs $200 to $500, the National Association ofessional Geriatric Care gers. Then, supervising ase on an ongoing basis un $40 to $150 an hour.

checks, payroll, and supervision. To ease the burden, you can retain a record-keeping company such as Paychex (800 828-4411), which will issue checks and handle the reporting and W-2 forms for a weekly fee of $9. Unlike an agency or care manager, a registry doesn't automatically provide backup or emergency care—unless you ask for it in writing. You can locate a registry through elder-care specialists or in the Yellow Pages under nursing.

GET ADVICE. No matter which route you choose, unless the elderly person is covered by a good long-term-care insurance policy (BW—Dec. 4, 1995), paying for home health care can be a big problem. One strategy is to borrow against the cash value of the aged parent's life insurance policy. The loan plus interest is deducted from the death benefit when the insured dies. Seniors can also take out a reverse mortgage to tap the equity in their house. Or, assuming the adult child is in a high tax bracket, it may make more sense for that person to take a tax-deductible loan against his or her own home equity.

The uniqueness of each situation means there is no one solution. As difficult as it is to discuss such matters with your parents while they're still healthy, you just have to bite the bullet. Then, before transferring assets or taking a second mortgage, consult an expert. "Too often people are a few miles down the wrong road before they get advice, and the road back is usually uphill," says Gary Mazart, an estate-tax attorney with Hannoch Weisman in Roseland, N. J. Thinking ahead can help you know where to turn before you go astray. *Kerry Capell*

EALTH CARE

arents who live far away or have special eeds may require a geriatric-care manager

e total cost varies ac- ng to the level of ser- you need. You can have are manager make reg- visits to the home, han- ill paying, and act as a on between the family other professionals, such as doctors and lawyers. Make sure you specify in writing the exact services to be provided.

The least costly source of care is a licensed registry—essentially a temp agency for home-health-care workers—which charges $10 to $14 per hour plus a registration fee of $200 to $1,000. It's a trial-and-error approach: The registry sends referrals until you find one that works out. You save money because you do all the legwork: reference

INVESTING OVERSEAS IS GETTING TO BE A SNAP

What's structured like an index fund, trades like a stock, and lets buyers own a stake in an international stock market? World Equity Benchmark Shares (WEBS) and CountryBaskets, trading since the end of March on the American Stock Exchange and New York Stock Exchange, respectively, give individuals a simple and fairly economical way to invest overseas. But like any equity investment, there's an inherent risk.

SMART MONEY

Until now, investors looking abroad had three options: Buy the stock directly through American depositary receipts (ADRs) or foreign shares, invest in an international mutual fund, or buy a closed-end fund. Hyped as the next generation of international investing, WEBS (overseen by Morgan Stanley) and CountryBaskets (managed by Deutsche Morgan Grenfell, an arm of Germany's Deutsche Bank) offer the benefits of those familiar choices without many of the problems.

LOW TURNOVER. Since they are U.S. securities trading in U.S. dollars, like ADRs, investors don't have to deal with such hassles as foreign stock certificates, custodial issues, and exotic tax and accounting requirements. Unlike mutual funds, which are sold and redeemed at prices determined at the end of each trading day, these instruments trade continuously on the secondary market, so investors can buy and sell long, short, and on margin. A Deutsche source says the Chicago Board Options Exchange has plans to list options on Baskets.

Because turnover is low in both products compared to the typical international equity fund, CountryBaskets and WEBS will have only minor annual capital gains distributions—and capital gains tax—for investors. Lastly, in contrast to closed-end funds, which often trade at discounts or premiums in excess of 20%, shares in WEBS and CountryBaskets hover at or near their net asset value.

Both investments, which are no-load and sold through brokers on commission, are a series of country-specific funds that mimic the performance of an underlying stock index. Indexing enables the funds to buy a group of stocks that most represent a particular market. Since they're not actively managed, they carry lower fees and expenses than comparable mutual funds.

WEBS cover 17 markets ranging from Sweden to Singapore and try to mirror the Morgan Stanley Capital International indexes in those countries. (The AMEX also lists a domestic version of WEBS called SPDRS, or Standard & Poor's depositary receipts.) WEBS trade between $10 and $20. The nine CountryBaskets, all in developed markets, attempt to recreate specific *Financial Times*/Standard & Poor's Actuaries World Indices and sell for between $19 and $53. CountryBaskets trade in increments up to ¼, while AMEX shaves the share price even finer, to 1/16. In addition to buying stocks, the backers of both instruments say they will use derivatives, including futures and options, to track the individual markets.

GOOD TIMING. Although WEBS and CountryBaskets are dollar-denominated, the underlying shares trade in the local currency. So investors are still making country and currency bets. Despite the ability to sell the shares short, they are meant to be held long term, since frequent traders will run up hefty commissions. Best to leave the speculating to arbitrageurs.

The timing of these products couldn't be better, even though lackluster returns over the past few years have soured many people on international investing. With the U.S. stock marke record highs, there's reason than ever to overseas. Because they centrate in single coun WEBS and CountryBaske low you to focus on mor dervalued markets or with a low correlation t U.S. If done properly, reduces portfolio volat Ram Kolluri, a partner i dividual Asset Plan Corp., a Princeton firm, is recommending J "It's a depressed major ket which is selling incre cheaply," he says.

Indeed, AMEX's senior president of product d opment, Gary Gastineau ticipates the Japanese will be among the most ly traded of the group it will be a very low way for vestors t Japan. den—curr available on WEBS—is the ket of choice W. David W investment st gist at The H lands Grou San Fran "Short t

Sweden is tractive becaus becoming fiscally con ative and the econom improving."

Despite all the hoopla rounding WEBS and Cou Baskets, many money agers believe inve without the time, mone savvy to spend on cou and currency allocation better off in internat mutual funds. But for th it-yourselfer with an u standing of the risks an wards, Wall Street has up with 26 innovative to play the global inve game. *Kerry C*

How They Compare

INSTRUMENT/ EXCHANGE	EXPENSE RATIO	MANAGEMENT	PRICING
WEBS/AMEX	.82%	Passive	At or near NAV*
COUNTRY-BASKETS/NYSE	.84	Passive	At or near NAV*
CLOSED-END COUNTRY FUNDS/ANY	1.53	Active	Discounts/ premiums to NAV

* Net asset value

DATA: DEUTSCHE MORGAN GRENFELL, C.J. LAWRENCE INC., MORGAN STANLEY & CO., MORNINGSTAR INC.

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SO WHO NEEDS A SECRETARY?

Cruising down a rural Georgia road on the way to a speaking engagement, Jordan Ayan, a technology consultant in Naperville, Ill., got an urgent call on his cellular phone. It was Wildfire, his electronic personal assistant, which had tracked him down and told him someone was trying to contact him. Ayan recognized the caller's name as a potential client who, as it turned out, wanted to book him for a speech at the last minute. "In the past, I would've lost that business. He wouldn't have been able to reach me and probably would've hired someone else," says Ayan, who spends 70% of his time on the road.

Wildfire and two other systems, Atlas and Oryx, represent a new breed of easy-to-use interactive telephone service that could make secretaries obsolete. They not only perform basic tasks, such as taking messages and connecting calls to your office directly to your mobile phone or hotel room, but actually engage in verbal give-and-take.

TELEPHONES

POLITE VOICE. The 18-month-old Wildfire was the first of its kind and is still the most lifelike. Hailed for its ease of use, it relies on sophisticated speech recognition to complete tasks. Say a call comes into your office. Wildfire answers in a polite female voice: "Hello, I'm the Wildfire assistant to Mr. Jones." The voice asks the caller to state his or her name and to say "Take a message" or "Put my call through." If the person needs to speak to you, Wildfire rings as many as five preprogrammed numbers, which can be easily changed, until it finds you.

Perhaps you're at an airport chatting on your cellular phone. Wildfire cuts in, whispers the name of the caller—only you hear it—and asks if you want to accept the call or have a message taken. By putting your current call on hold, you're connected to the new call. Otherwise, Wildfire will take a message. Later, while retrieving the message, you just say: "Wildfire, give them a call," and it will automatically dial the number.

Wildfire can also give you a morning wake-up call or a meeting reminder. Its callback feature is especially cost-effective. If you're in a hotel room in Thailand, say, and someone is trying to reach you from the U.S., Wildfire can dial the caller from within the U.S. at the cheaper domestic phone rates and then connect you. It even has a sense of humor: Tell it you're depressed, and it says: "*You're* depressed. *I* live in a box."

Once limited to corporate users who could shoulder the $50,000 up-front cost of equipment, Wildfire is now targeting the home-office market through independent service providers. They buy the equipment and then charge the user a monthly fee of about $39, plus telephone usage. By yearend, Wildfire may be available through larger companies such as AT&T and Pacific Mobile Bell.

Follow-Me Phone Systems

SERVICE/COMPANY	APPROXIMATE COST*	COMMENTS
ORYX **PRIORITY CALL MANAGEMENT 800 840-8618**	$20/month	Automatically reconnects cellular call if user temporarily loses transmission; limited speech recognition
ATLAS **PRECISION SYSTEMS 800 TALK-PSI**	$25/month	Only service that allows user to pick up phone, fax, and pager messages via computer
WILDFIRE **WILDFIRE COMM. 800 WILDFIRE**	$39/month	Lifelike and easy-to-use with elaborate voice recognition; collects phone messages only

* Doesn't include telephone charges

DATA: COMPANY REPORTS, BUSINESS WEEK

While Wildfire takes messages telephone callers las and Oryx ca tify you of a coming fax can cust services to needs. which is launched spring, us impersonal voice to the tasks Wildfire doe then some. F ample, Atlas c your phone, fa pager mess which can then cessed on your PC v Internet. You view sages on your screen or to them.

POPULARITY. Perhaps working on your po computer. Before your lar phone rings, an Atla pops on your screen to you to an incoming cal ing your computer ke you choose whether want to answer it, send voice mail, or pass it to league. You can type weekly schedule with warding numbers into computer so that Atla track you down.

Oryx' basic feature similar to those of the services, but its speech nition is limited to d numbers. For other func you use the telephone k to respond to compute voice prompts. Oryx few unique features. If cellular phone battery to expire, you can transf call to a nearby phone w interrupting your conv tion. Oryx also automat reconnects a cellular call lose transmission while driving between zones.

Expect to see plenty companies offering these vices as their popularit creases. With an elect personal assistant, those who operate out home office don't hav feel like they're wo alone. *Toddi G*

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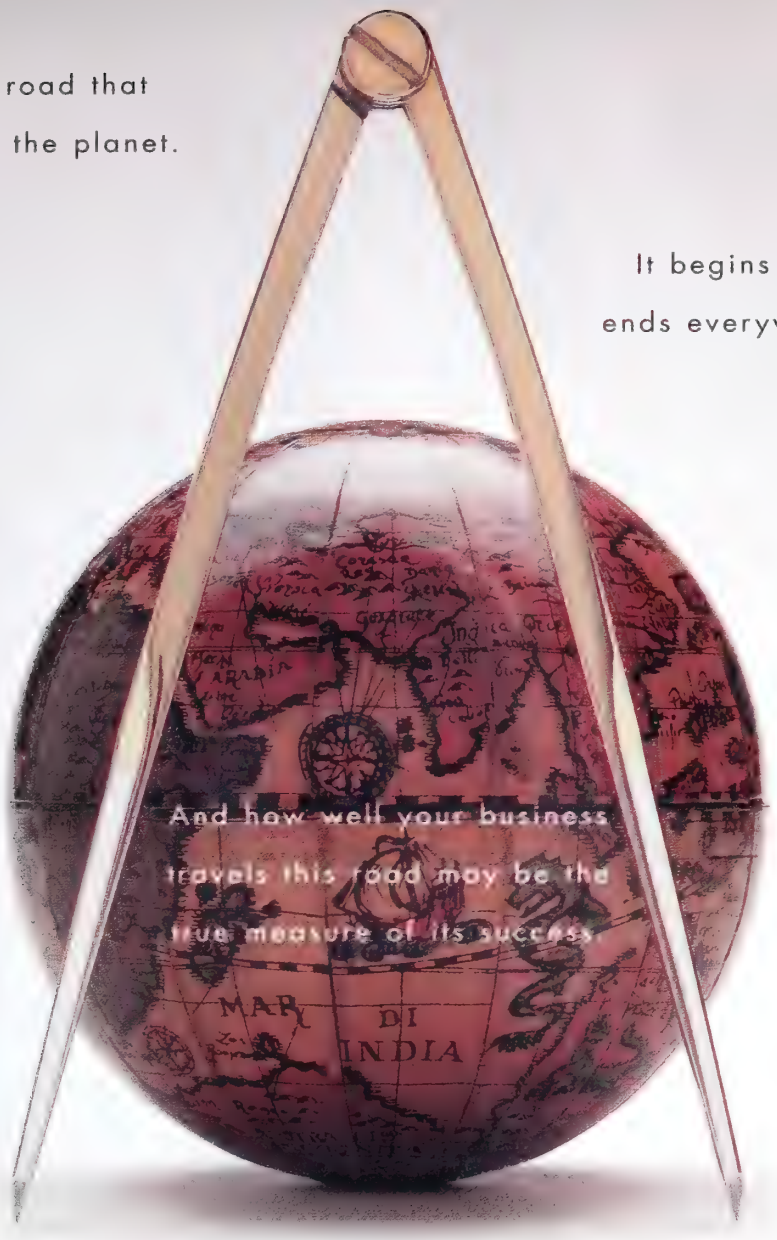

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WINNING THE NEW RAT RACE: CONSULTING

Many people who exit the corporate world and want to set up shop at home are attracted to consulting. But if all those would-be consultants really understood how hard it is to make a go of it, they probably would try a different career. The most discouraging statistic: 70% of new consultants drop out in the first year, says the National Bureau of Professional Management Consultants (NBPMC). "You may have experience in an industry, but you need to know how to market that experience and convince people that you can do the job," says Rudy Lewis, president of the National Association of Home Based Businesses.

Despite the slim odds of success, five million home-based workers call themselves consultants in areas as varied as information management, software development, and human resources. So what can you expect when you decide to hang out your shingle? And how can you increase your chances of earning a decent living?

FIRM COMMITMENTS. It's important to start laying the groundwork for your business as early as possible. Take Eva Wisnik, who launched Wisnik Career Strategies, a career-planning consultancy, from her New York City home in March after nine years as a corporate recruiter. More than a year before she left her last job [illegible] Wall Street law firm, she began networking. She in[illegible] her involvement in professional and charitable organizations, set up lunches with colleagues in her industry, and broadened the scope of her speaking engagements. "Why go on my own now?" she asks rhetorically. "At this point, my contacts are prime."

Wisnik took care to remain on good terms with her law firm. She gave two months' notice, long enough to help fill her position. She also assessed what the firm's future needs would be, then negotiated a deal to continue working on a project basis. The lesson she learned: "Be honest and flexible with your employer. They could become a client."

Newly minted consultants should be prepared to work long hours for little monetary gain at first. Rejection is a given; you can spend a year cultivating a prospect and never get a single assignment. Earnings span a broad range, from $20,000 to $200,000 a year. But count on subsidizing yourself 100% for the first year of business, 70% for the second year, and 20% the third year, says Vito Tanzi, NBPMC chairman. There should be enough initial cash for a computer, printer, fax machine, separate business line with voice mail, and office supplies. Don't skimp on a good-quality brochure and letterhead.

CAREERS

Wisnik took out a $25,000 bank loan to help get started. To save money, she bartered services with a graphic artist, exchanging a marketing plan for a logo design. She set a goal of 30 calls a day to potential clients or those who could refer her to prospects. She expected 20% of those calls at best would turn into actual business. Wisnik has been lining up three speaking engagements a week, with at least one of them paying $750 to $1,500. She went from 50-hour workweeks at her corporate job to 70-hour weeks. She thinks she can match her law-firm salary of $100,000 in a

In addition to mark your expertise and m sure you have financi sources to fall back on, are other considerations starting a consultancy. ure out what your skill and only sell those abi Don't try to be all thir all people, advises the tute of Management C tants (IMC). Seek feed from an u board of a ers whose judgment respect. You can also credibility by obtaining fessional designations. IMC and NBPMC provide dentials based on exper education, references, a ence to a code of and in IMC's ca written exam.

PAYING BILLS. Alt there are many di ties in creating an taining a successfu sultancy, some p do very well. In Joanne Mitchell le job as a mor banker in pursu something differen chance, after findi error in a doctor' she realized phys had a need for ou assistance in ove ing their billing tems. She took c on medical billing chased special soft and began conta doctors. She launched Mitchell ical Billing in San Die took her just 10 mont get back to her forme porate salary of $49,00 today, her company, whi cludes her husband and assistants, brings in si ures with clients nation

Success certainly d come as easily to ever But in consulting—as in fields—a little ingenuity long way. *Laura Koss-*

Resources for Aspiring Consultants

ORGANIZATIONS

Institute of Management Consultants, 521 Fifth Ave., 35th Floor, New York, N.Y. 10175-3598; 212 697-8262

National Association for the Self-Employed, 1023 15th St., N.W., Suite 1200, Washington, D.C. 20005; 202 466-2100

National Association of Home-Based Businesses, 10451 Mill Run Circle, Suite 400, Owings Mills, Md. 21117; 410 363-3698

National Bureau of Professional Management Consultants, 3577 4th Ave., San Diego, Calif. 92103; 619 297-2210

READING MATERIAL

Kennedy Publications, 800 531-0007; Markets a variety of books on consulting. Call for catalog

The Business Plan Guide for Independent Consultants by Herman Holtz ($55, John Wiley)

The Consultants Manual by Thomas Greenbaum ($19.95, John Wiley)

DATA: NATIONAL BUREAU OF PROFESSIONAL MANAGEMENT CONSULTANTS, BUSINESS WEEK

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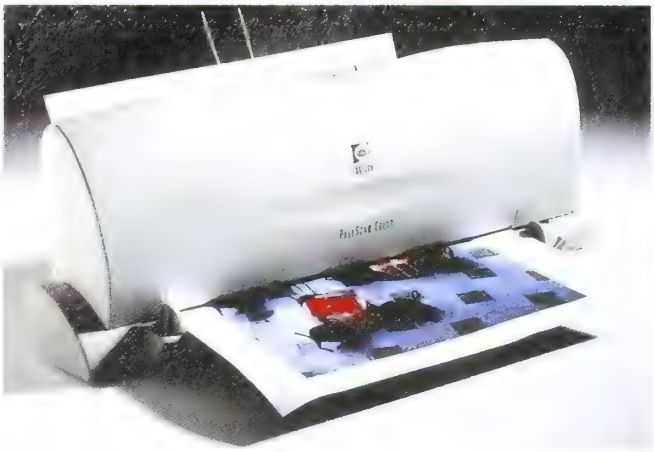

PAGESCAN COLOR: *The Logitech scanner head can be detached to scan books*

DECLARE WAR ON PAPER—WITH A SCANNER

Andrew Hague is becoming a scanning junkie. A consultant who works out of his Manhattan apartment helping companies figure out how best to utilize voice mail, Hague recently discovered an ideal way to reduce the mounds of paper invading his desk. He scans myriad documents into a PC with a compact product called the Visioneer PaperPort Vx, then tosses away most of the originals. Hague uses PaperPort on bank statements, business cards, and graphs he can incorporate into presentations. He also has scanned instruction manual pages and even a beach house lease. "I really envision going to a paperless office," he says.

With personal scanners such as PaperPort, the possibility of a clutter-free home office, in which people store and easily retrieve documents via computer, is at hand. Because scanners allow folks to use fax-modems (but not sophisticated fax machine) to transmit documents that didn't originate on the PC. A scanner can also turn a printer into a no-frills copier. Scanners are becoming smaller, simpler, and at $400 or less, more affordable. PC makers also are finding unobtrusive spots in a computer system to place scanners. A version of PaperPort is built into a new computer keyboard from Compaq Computer.

BUSINESS WEEK and the National Software Testing Laboratories, both owned by The McGraw-Hill Companies, put five inexpensive scanners under the microscope. With each—the PaperPort Vx and its near-twin, the HP Scanjet 4s, the Delrina WinFax Scanner, the UMAX PageOffice, and the Logitech PageScan Color—you feed in a sheet of paper. As the document passes through, its image materializes on your PC screen.

Still, there are key differences among the models we tested. Some machines can scan more speedily than others or have better software for managing images once they reside inside your computer. And some are considerably faster and more accurate at tackling optical character recognition (OCR), a process by which electronic files are converted into text that can be edited.

Logitech's PageScan Color unit was the only machine we tested with color-scanning capabilities, a key advantage. Another plus: Users can detach the Logitech scanner head and roll it across a bound book or magazine, thus scanning pages that sheet-fed machines could not handle. PageScan comes with a stripped-down version of DocuMagix' fine PaperMaster software, which lets you file scanned documents in personalized "folders" and "drawers." On the negative side, the Xerox TextBridge OCR program that came bundled with the scanner performed poorly and had problems recognizing commas, periods, dashes, and lowercase m's.

COMPUTERS

The TextBridge so included with the D WinFax Scanner didn much better. The year for instance, was con to 1990. And the D scanner, made by Fujits a laggard in terms of especially when scannin tos. That said, if your criterion is faxing cap the WinFax Scanner is thy contender. It come version 4.0 of Delrina's WinFax Pro program.

DRAG 'N' DROP. Page from UMAX made the OCR mistakes and is b with impressive softwa editing images and ma documents. You can cli drag documents direc icons for E-mail, faxing, ing, editing, or OCR to those functions. But Office is the only scan require an SCSI interfac which means plugging side the PC.

We got respectable with the slick Vis PaperPort Vx and the identical HP jet 4s. At long, both scanners u same software and fit between the keyboar monitor. Thumbnail ima scanned documents a on-screen; you can dra drop the documents int ers organized by topic cles, taxes, receipts, e other PC applications. picky point: It was d to insert a docume PaperPort with one because the sc would grab the crookedly.

For all the good ners can do in cl up space around home office, ther be a problem wit turing too much on your com Scanned document rapidly eat awa your hard drive. photos at high r tion can claim se megabytes.) Wher happens, you'll be ing clutter all again. *Edward*

Comparing Scanners

PRODUCT	PRICE	COMMENTS
DELRINA WINFAX SCANNER	$299	Strong on faxing, but made several "optical character recognition" (OCR) errors for converting scanned images to editable text.
LOGITECH PAGESCAN COLOR	$399	Can scan in color. Removable scanner head lets you scan pages from bound materials. Poor OCR results.
VISIONEER PAPERPORT VX	$299	Able to easily incorporate scanned documents into many programs. Twin to $299 Hewlett-Packard Scanjet 4s.
UMAX PAGEOFFICE	$345	Most accurate at handling OCR tasks and includes helpful software suite. But users must install a circuit card inside PC.

DATA: BUSINESS WEEK, NATIONAL SOFTWARE TESTING LABORATORIES

BusinessWeek

INTERNET ADDRESS DIRECTORY

ww.adobe.com/?BW

ed Micro Devices
ww.amd.com

ww.aetna.com

nerican Institute of cts
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Cadillac
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Canon
http://www.canon.com

Chrysler
http://www.chryslercorp.com/

Cisco Systems
http://www.cisco.com

Cobra Golf
http://www.CobraGolf.com

Compaq
http://www.compaq.com

Computer Associates
http://www.cai.com

Consolidated Freightways
http://www.cnf.com

Delta
http://www.delta-air.com

Digital PC
http://www.pc.digital.com

Diners Club
http://www.dinersclub.com

Federal Emergency Management Agency
http://www.fema.gov

FedEx
http://www.fedex.com

Ford
http://www.ford.com/

Fujitsu
http://www.fujitsu.com

GE Information Services
http://www.ge.com/geis

General Motors
http://www.gm.com

Hewlett-Packard
http://www.hp.com

IBM
http://www.ibm.com

Intel
http://www.intel.com/

International Institute for Management Development
http://www.imd.ch/

Jack Daniels Tour
http://www.infi.net/jack daniels/

Janus Funds
http://networth.galt.com/janus

Kodak
http://www.kodak.com/

Lexus
http://www.lexususa.com

Lotus
http://www.lotus.com

MapInfo
http://www.mapinfo.com

MCI
http://www.mci.com

Microsoft
http://www.microsoft.com/

Motorola, Wireless Data Group
http://www.mot.com/wdg/

Netcom On-Line Communication Services
http://www.netcom.com

Novell
http://www.novell.com

Ohio Department of Development
http://www.ohiobiz.com

Okidata
http://www.okidata.com

Omron Corp./North America
http://www.omron.co.jp

PageNet
http://www.pagenet.com

PeopleSoft
http://www.peoplesoft.com

The Principal Financial Group
http://www.principal.com

PSINet
http://www.psi.net/

Raytheon
http://www.raytheon.com

Roberts Express, Inc.
http://www.roberts.com

Charles Schwab
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Saab
http://www.saabusa.com

SAS Institute
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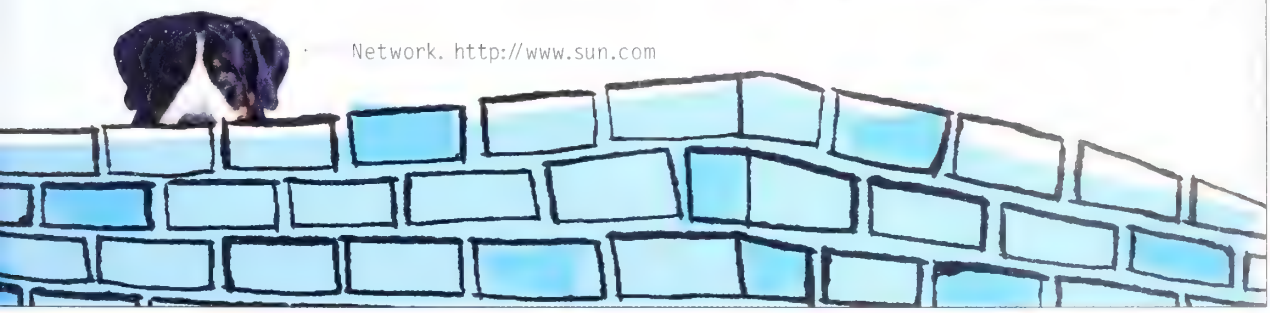

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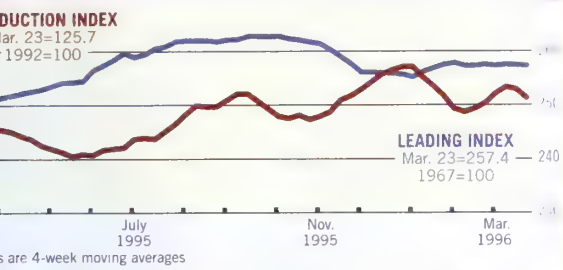
e from last year: 2.3%

Change from last week: 0.0%
Change from last year: 2.5%



s are 4-week moving averages

duction index fell in the week ended Mar 23. Before calculation of -week moving average, the index dropped to 123.8., from 125.1. from the General Motors Corp. strike continues to affect the seasonally output of autos and trucks.

ding index was virtually unchanged in the latest week, but the ged index declined from 257.4 to 257.1.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/30) thous. of net tons	2,103	2,098#	5.8
AUTOS (3/30) units	117,388	79,190r#	-20.4
TRUCKS (3/30) units	126,582	90,451r#	5.8
ELECTRIC POWER (3/30) millions of kilowatt-hrs.	57,670	57,876#	4.9
CRUDE-OIL REFINING (3/30) thous. of bbl./day	14,044	13,834#	4.2
COAL (3/23) thous. of net tons	21,404#	21,256	3.4
PAPERBOARD (3/23) thous. of tons	882.3#	864.0	-5.4
PAPER (3/23) thous. of tons	817.0#	808.0	-4.6
LUMBER (3/23) millions of ft.	460.9#	447.4	2.4
RAIL FREIGHT (3/23) billions of ton-miles	25.2#	25.3	-1.2

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
PRICES (3/29) S&P 500	649.27	650.83	29.2
RATE BOND YIELD, Aaa (3/29)	7.39%	7.41%	-8.5
TRIAL MATERIALS PRICES (3/29)	109.8	109.8	-3.6
ESS FAILURES (3/22)	345	318r	23.2
STATE LOANS (3/20) billions	$507.0	$508.8r	8.2
SUPPLY, M2 (3/18) billions	$3,693.9	$3,683.7r	2.6
. CLAIMS, UNEMPLOYMENT (3/16) thous.	386	352	10.9

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/3) $/troy oz.	394.650	400.350	1.1
STEEL SCRAP (4/2) #1 heavy, $/ton	139.00	139.00	1.1
COPPER (3/30) ¢/lb.	119.9	121.0	-17.4
ALUMINUM (3/30) ¢/lb.	77.9	76.5	-13.0
COTTON (3/30) strict low middling 1-1/16 in., ¢/lb.	82.32	82.18	-15.5
OIL (4/2) $/bbl.	22.45	22.26	17.7

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

REST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (4/2)	5.29%	5.23%	6.20%
ERCIAL PAPER (4/3) 3-month	5.36	5.37	6.15
FICATES OF DEPOSIT (4/3) 3-month	5.35	5.34	6.15
MORTGAGE (3/29) 30-year	8.00	8.05	8.59
TABLE MORTGAGE (3/29) one-year	5.77	5.77	6.37
(4/3)	8.25	8.25	9.00

: Federal Reserve, HSH Associates, Bloomberg Financial Markets

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/3)	106.89	106.61	84.15
GERMAN MARK (4/3)	1.48	1.49	1.38
BRITISH POUND (4/3)	1.53	1.52	1.61
FRENCH FRANC (4/3)	5.04	5.07	4.79
ITALIAN LIRA (4/3)	1562.7	1579.5	1712.9
CANADIAN DOLLAR (4/3)	1.36	1.36	1.39
MEXICAN PESO (4/3)	7.508	7.540	6.360

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

ata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

SALES

ay, Apr. 11, 8:30 a.m.EDT ▶ Retail robably increased by 0.3% in March, e median forecast of economists sur- y MMS International, one of The -Hill Companies. Store sales by 0.8% in February, led by a 2% car dealers. Excluding vehicle sales, uying likely rose 0.1% in March, 0.4% advance in February. That's ed by the weekly surveys of depart- tores and other retailers.

CER PRICE INDEX

ay, Apr. 11, 8:30 a.m.EDT ▶ Produc- s of finished goods probably rose a .4% in March, after falling 0.2% in February. That decline reflected a drop in energy prices, but fuel costs have edged back up since then. Even with the expected rise in March, producer inflation should remain near 2%. Inflation further back in the production process is also mild: The prices of intermediate supplies rose 1.1% in the year ended in February, and crude-material prices were up 4.2%.

CONSUMER PRICE INDEX

Friday, Apr. 12, 8:30 a.m.EDT ▶ The MMS median forecast expects that consumer prices rose by 0.3% in March, after a 0.2% gain in February. As with the producer price index, the March rise is suggested by higher energy costs. Excluding food and energy, prices likely increased 0.2%, the same gain as in February. Inflation continues to be quite tame with two exceptions: Housing costs are beginning to show some uptrend, and entertainment costs have increased by 3.8% over the past year.

BUSINESS INVENTORIES

Friday, Apr. 12, 10 a.m.EDT ▶ Inventories held by manufacturers, wholesalers, and retailers probably rose 0.2% in February, says the MMS report. That's after a 0.6% gain in January. However, the bad weather of January prevented some companies from shipping out goods. Factories have already reported a 0.2% increase in their inventories in February.

PICK A MULTIVENDOR ENVIRONMENT IN COMPANIES LIKE THESE ▸

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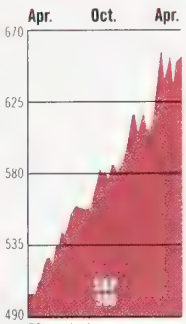
vestment Figures of the Week

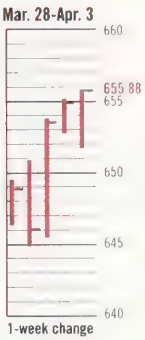
NTARY

s charged ahead, with the s industrial average 18 points to a record of n Apr. 3. But broader in- ch as the Standard & 0-stock index and the NAS- osite both were under ord highs. Cyclical and -chip makers led the Bonds and the dollar fell, ers expressing concern ise in Japanese interest onomic news, such as a an-expected gain in con- ending, discouraged

STOCKS

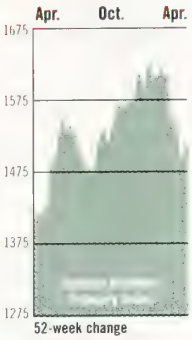


52-week change
+29.7%

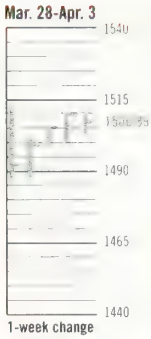


1-week change
+1.1%

BONDS

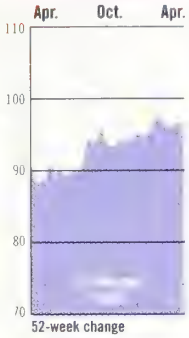


52-week change
+6.2%

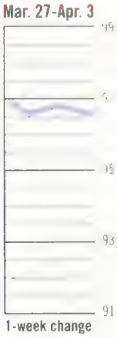


1-week change
+0.5%

THE DOLLAR



52-week change
+6.9%



1-week change
-0.3%

KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	5689.7	1.1	35.5
COMPANIES (S&P MidCap Index)	232.1	1.1	26.7
OMPANIES (Russell 2000)	334.1	1.7	27.9
PANIES (Russell 3000)	374.5	1.2	30.2

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3725.1	1.4	16.8
IKKEI INDEX)	21,464.7	0.6	35.1
(TSE COMPOSITE)	5021.5	0.7	17.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.15%	5.16%	5.83%
30-YEAR TREASURY BOND YIELD	6.62%	6.68%	7.37%
S&P 500 DIVIDEND YIELD	2.13%	2.15%	2.60%
S&P 500 PRICE/EARNINGS RATIO	19.3	19.2	16.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	598.2	595.4	Positive
Stocks above 200-day moving average	68.0%	69.0%	Neutral
Speculative sentiment: Put/call ratio	0.56	0.57 r	Negative
Insider sentiment: Vickers sell/buy ratio	2.44	2.50	Neutral

BLOOMBERG FINANCIAL MARKETS

ISTRY GROUPS

NTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
S	15.0	55.1	NIKE	20.1	115.3	80 3/4
UTION CONTROL	13.6	11.9	WMX TECHNOLOGIES	15.5	18.6	32 5/8
ND GAS DRILLING	12.0	59.5	ROWAN	20.9	100.0	13
ELL EQUIPMENT AND SERVICES	9.9	39.8	WESTERN ATLAS	13.1	40.3	60 1/2
MOBILES	9.8	33.7	FORD MOTOR	13.1	32.6	35 5/8

NTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
FACTURED HOUSING	–9.4	3.6	FLEETWOOD ENTERPRISES	–9.4	2.1	24 1/8
CCO	–8.9	32.5	PHILIP MORRIS	–9.6	38.2	90 7/8
DCASTING	–7.5	22.4	COMCAST	–14.9	9.6	17 1/4
WHOLESALERS	–5.1	16.5	FLEMING	–38.9	–45.3	12 3/8
RANCE BROKERS	–4.7	8.4	MARSH & McLENNAN	–5.6	13.2	93

UAL FUNDS

MORNINGSTAR, INC.

RS

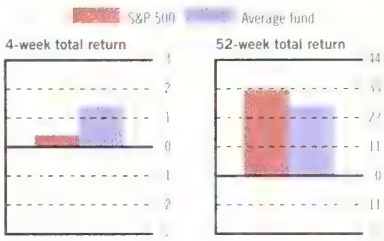
ek total return	%
FUS AGGRESSIVE GROWTH	9.8
E STREET RESEARCH GLOBAL RES. A	9.7
II CAPITAL APPRECIATION A	9.5

k total return	%
S	74.6
ER SMALL CAP EQUITY	73.1
PRECIOUS METALS A	72.4

LAGGARDS

Four-week total return	%
MFS/FOREIGN & COL. INTL. GROWTH & INC. B	–32.9
STEADMAN TECHNOLOGY GROWTH	–6.7
MERRILL LYNCH TECHNOLOGY C	–6.3

52-week total return	%
STEADMAN TECHNOLOGY GROWTH	–21.1
EV MARATHON GREATER INDIA	–16.7
STEADMAN AMERICAN INDUSTRY	–15.2



ATIVE PORTFOLIOS

MERRILL LYNCH

mounts represent the value of $10,000 d one year ago portfolio

tages indicate y total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$13,280	$11,773	$11,574	$10,552	$10,252
+0.35%	+1.27%	–0.46%	+0.11%	–0.84%

on this page are as of market close Wednesday, Apr. 3, 1996, unless otherwise indi- dustry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 2. Mutual fund returns are as of Mar. 29. Relative portfolios are valued as of Apr. 2. A more detailed explanation of this page is available on request. r=revised

THE REAL ASIAN THREAT: MERCANTILISM

Brace yourselves for this image: American President Bill Clinton and Japanese Prime Minister Ryutaro Hashimoto standing together in Japan, declaring victory on the trade front while reaffirming their countries' security ties. With tensions high in the Taiwan Strait and on the Korean peninsula, photos of Clinton and Hashimoto during their mid-April meeting will suggest a return to the cold-war focus on security over economic interests. We think it is geopolitical Kabuki at best and dangerous denial for all parties concerned.

The truth is that while Clinton and Hashimoto will gain domestic political advantage posturing as defenders of freedom, there is no serious threat to Japan or the U.S. China is simply not the kind of security threat to the U.S. that the Soviet Union was during the cold war. But the more Washington and Tokyo talk about "security," the more they demonize China and bolster the power of the People's Liberation Army and hard-liners in Beijing.

The real challenge to American national interests in Asia is mercantilism. State-directed capitalism and protectionism are doing serious harm to U.S. national interests by impairing exports, foreign investment, economic growth, and the creation of high-paying jobs. Worse, mercantilism is undermining public support for free trade in America and inviting a return to isolationism. As long as mercantilism prevails, the theoretical fruits of free trade will be lost on millions of Americans who lose jobs and income. Japan is exporting its economic model to all of Asia. Korea was its first protégé, Malaysia followed, and now China is flirting with mercantilism. In fact, by treating China as a security threat, the U.S. is only reinforcing the power of the military and the state in the economy.

China today is being held to a moral double standard. Russia's Boris Yeltsin sends in troops that kill 30,000 Cheche gets warm embraces from the West. But Jiang Zemin, a erate struggling against hard-liners, doesn't warrant a dential visit. U.S. negotiators take 40 years to persuade T to stop piracy but demand instant action from China. ington maintains smooth relations with Seoul after a di ship kills hundreds of students and workers in Kw Province in 1980. But China gets ostracized over human after Tiananmen Square. China gets zero credit for aban North Korea, but is condemned for overreacting to Ta feint toward independence. Where's the balance?

The upcoming summit in Tokyo is a chance to ask wh strategic post-cold-war American interests in Asia ar what policies should be used to achieve them. There doubt that the U.S. should play a key balance-of-powe in Asia. Indeed, China and most of Asia have made it they prefer a U.S. military presence to a rearmed Jap

The security review should include the issue of bu sharing. What should be the quid pro quo for secur Asia? It is not unreasonable to ask Japan and others t on additional military responsibilities and to lower thei cantilist barriers in exchange for security. The U.S. f policy and security elite believe security should be com ly divorced from economic issues. Some go so far as t gest that providing security is a perk of global power.

We don't. American workers can't be expected to economically to protect Asians from one another. The should instead bring its focus back to its real national est—busting mercantilism worldwide. Posturing in about military threats that aren't there will simply hid nomic conflicts that will not disappear during election

STOP SABOTAGING SENSIBLE REFORMS

It used to be hard to find an anarchist in America, and the only ones were on the left. Now, there are lots—but they're holed up on the right. Among the strangest are kooks in Congress, where they are attacking reasonable, moderately conservative policies.

The latest example is the attack on, of all things, vouchers. Conservative Republicans and the Clinton Administration have agreed to streamline the huge federal job-training effort. Instead of dozens of inept programs, Congress wants simply to give vouchers to individuals to buy their own training. As part of the legislation, an electronic job bank would help match up workers and available jobs, and high school vocational programs would be retooled. Great ideas, right?

Not for conspiracy buffs. The right-wing Eagle Forum and the Family Research Council are successfully attacking the retraining legislation as Big Brother interference in the lives of all Americans. The former darkly talks about people being forced to work in only those occupations determin the government. The latter believes the bill will force a looking for a job to go through a government computer

The same kind of "any government is bad govern cant is destroying hopes of curbing illegal immigratio proposal to come out of the Commission on Immigratio form is to allow employers to use a computer syst match Social Security numbers with the true identit their holders. It now costs illegal immigrants $400 to bu ID. Since everyone already carries a Social Security the effort is benign. But if you believe in conspiracies, nefarious attempt to force people to obtain yet anothe ernment card for a job. Fierce opposition is building in gress against any ID verification.

It's time to end this sabotage of sensible policy. gress must get on with improving the legitimate functi government.

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1995 EXECUTIVE PAY: BIG NUMBERS, BIG DEBATE

BusinessWeek

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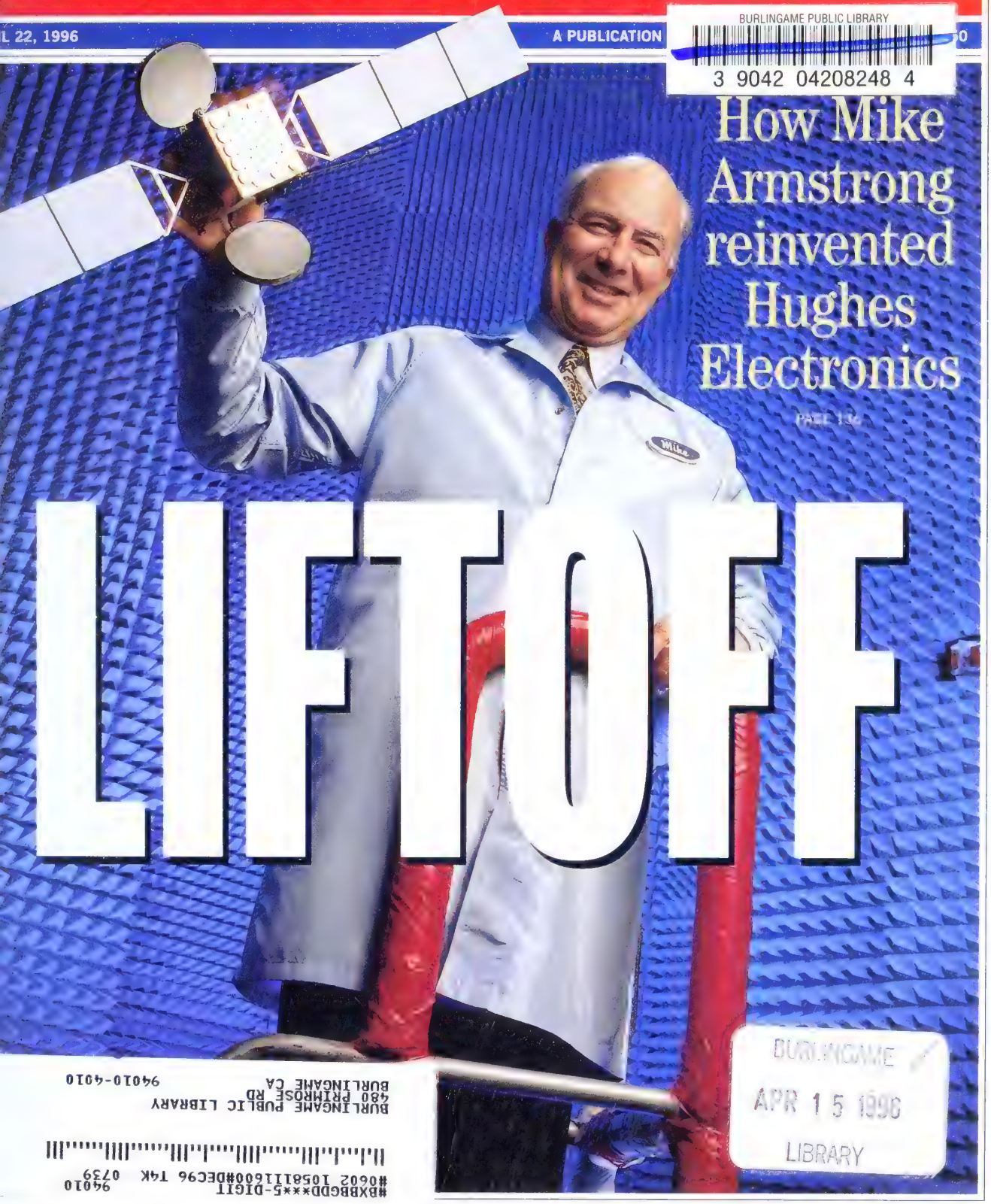

How Mike Armstrong reinvented Hughes Electronics

PAGE 136

LIFTOFF

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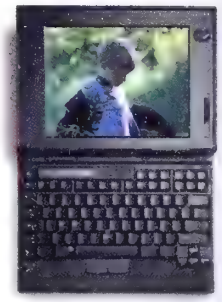

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COVER STORY
Mike Armstrong has taken Hughes' Electronics beyond defense into promising new high-tech markets
page 136

Cover Story

136 LIFTOFF
Mike Armstrong has remade GM's Hughes Electronics. The former IBM exec took a defense contractor with shrinking profits and turned it into a global contender in telecommunications and electronics—especially satellite TV. Along the way, Armstrong has altered the company culture—forcing scientists to work with marketers—and sent Hughes stock sky-high. Armstrong now has a big AT&T deal in hand. But can he hold off a growing crowd of rivals?

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The Hughes chief has always been a guy who focuses on the doable

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Despite the recent hikes in wages and commodity prices, countervailing forces should keep inflation firmly in check

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Grain prices are surging amid short supply, strong demand, and a fickle Mother Nature

37 CALIFORNIA IS BUSTING OUT ALL OVER
If the Golden State's economic turnaround remains in gear through November, it could be a boon for the Clinton campaign

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New York power—and Dole pal—Alfonse D'Amato isn't popular among his constituents, but he's riding high in Washington. Too high?

39 PASSING THE TORCH AT PARSONS
How the engineering giant handled the sudden loss of its chairman on Ron Brown's mission to Croatia

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TWA's restructuring is complete: The airline is cutting debt, hiring workers, and showing a profit—and its investors are breathing a lot easier

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Mayor Daley's financial overhaul is laying the groundwork for a dramatic rehabilitation of the school system

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The Communist Party may win June election, but a full-scale r of reforms seems unlikely

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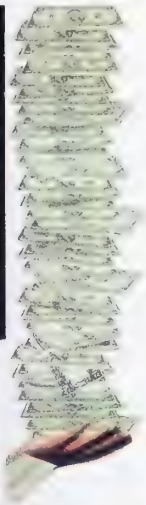

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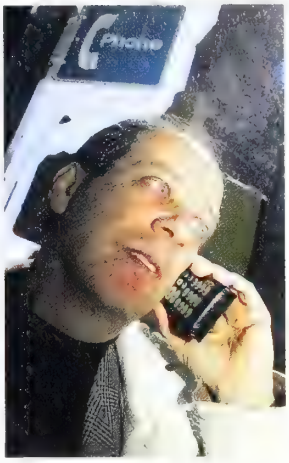
SHORTS BY THE SHORT HAIRS?

The SEC wants to know if short-sellers manipulated Organogenesis stock page 124



NET SAVINGS

Cyberspace calling is cheap–and more PC users are picking up on it page 131

BACKLASH

Families of cancer victims are suing the makers of denture cream page 92

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NOMIC VIEWPOINT
tner: Are only the rich getting
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ity ownership remains concentrated

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SINESS OUTLOOK
bond market's latest mood swing
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is testing the idea of clipping them
of its marketing arsenal, and rivals
y follow suit

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Until 1990, millions of denture wearers used adhesives that contained benzene, a carcinogen

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Pay for CEOs went up a lot last year, despite downsizings and layoffs. The average increase, including bonuses and options: 30%. Many workers are angry. Is a backlash building?

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Those who delivered the biggest bangs, and the worst fizzles, for their bucks

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Share the wealth with the workforce
Keep Russian capitalism alive

Up Front

EDITED BY LARRY LIGHT

TALK SHOW "It is an acknowledgment that Congress is incapable institutionally of stopping pork-barrel spending

—Senator John McCain (R-Ariz.), applauding Bill Clinton's signing the line-item veto into law

WILD BLUE YONDER

JOCKEYING FOR JAPANESE RUNWAYS

THE HOTTEST TRADE TIFF isn't between Washington and Tokyo. It's among U.S. airlines over increased access to Japanese airports, and it threatens to undermine upcoming trade negotiations on the issue. Two U.S. carriers, United and Northwest, actually oppose holding these talks. Reason: They have a lock on 63% of the U.S. flights between the two countries—and fear that that will be diminished.

THREE'S A CROWD: *No U.S. solidarity*

Northwest (with 37% of the flights) and United (26%) benefit from landing slots secured under a 1952 treaty. Japanese flights garnered Northwest $1.6 billion in operating revenue last year (United doesn't break out Japan figures). Rivals American, Continental, TWA, and Delta are all crying foul, arguing that allowing them greater access to Japan would increase travel demand, so no one probably would lose.

Nonsense, say Northwest and United, who contend that the Japanese won't permit U.S. carriers to increase their presence very much. Tokyo is likely to take its usual hard line. One indication: A recently concluded pact gained U.S. freight carriers little new access to Japan. Washington's trade negotiators will only say that they don't want any American carrier to lose anything. *Christina Del Valle*

THE FEDS

WHO WILL SAVE COMMERCE NOW?

THE COMMERCE DEPT.'S FOES are going to lay off the criticism briefly out of respect for Ron Brown. And then they will pounce again. Without the feisty, politically savvy Secretary around to fend them off, the agency's opponents may have a better shot at shrinking—if not eliminating—Brown's old fiefdom at 14th and Constitution.

BROWN: *Megaclout*

Senate Majority Leader Bob Dole (R-Kan.), the GOP Presidential standard-bearer, backs a bill to eliminate the $3.6 billion-a-year department. So Commerce is a goner for sure if the GOP sweeps the White House and Capitol Hill in November. And even if President Bill Clinton wins a second term, the agency will see its budget squeezed as long as Republicans rule Congress.

And if things go the other way, Vice-President Al Gore's Reinventing Government brigade will make another run at downsizing Commerce. Gore tried in 1993 to streamline the agency's hodgepodge of programs, ranging from the National Aquarium to the Weather Service. But Brown blocked him.

Commerce's defenders are worried that none of the leading candidates to succeed Brown—White House Counselor Thomas "Mack" McLarty III, Commerce Undersecretary Stuart Eizenstat, and Acting Secretary Mary Good—has Brown's megaclout to protect it. *Amy Borrus*

STREET NEWS

INVESTMENT BANKERS TO GO

MORGAN STANLEY FI
itself suffering a talent
mounted by a former
exec now at Germany's l
ing bank. Carter McClell
president of Deutsche B
North America, aims to b
the bank's investment ba
ing arm, Deutsche Mor
Grenfell/C. J. Lawrence, at
old employer's expense.

RAIDI
McCl

McClelland, 50, who was Morgan Stanley's administrative chief, just hired his close friend, Frank Quattrone, who headed Morgan's high-tech investment banking group. McClelland also landed eight Mor
staffers to build a 30-pe
technology boutique,
about a dozen Morgan
from other areas. Mor
says it managed to re
many staffers DMG wante

People close to the ba
say McClelland is pay
Quattrone and pals amp
including an equity stak
the tech group, up to 50
pretax profits, and p
sharing in a $50 million
ture-capital pool. One M
gan analyst was offered
million over three years
from $250,000 a year. McC
land insists all comp is tie
results. *Leah Nathans S*

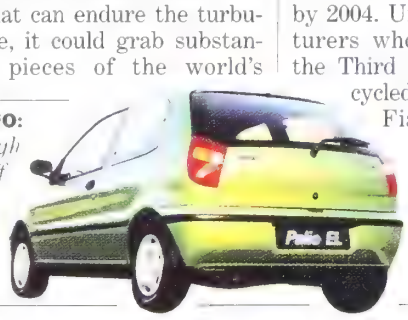
CAR TALK

LITTLE HATCHBACK MAKES BIG TRACKS

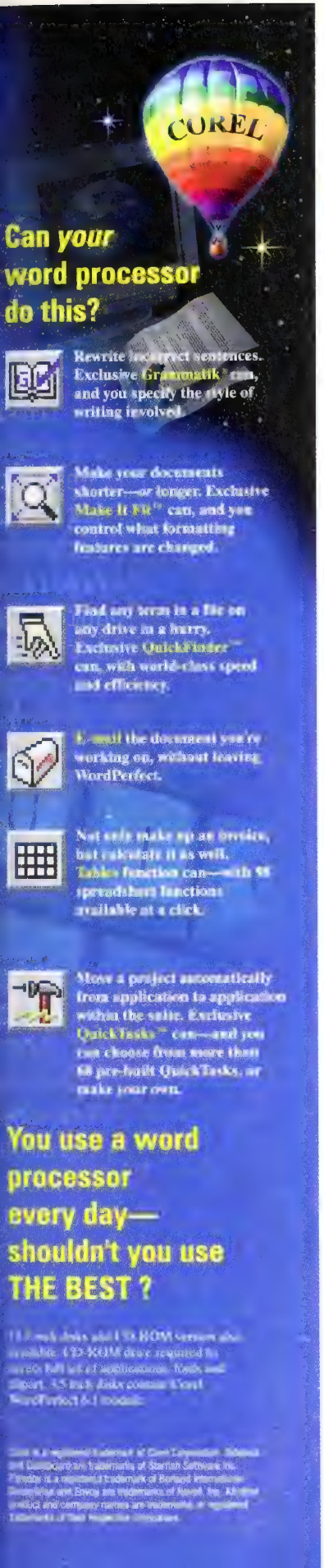
ITALY'S FIAT IS READY TO unveil its new "world car," the Palio. Other auto makers have rolled out ambitious world car programs, such as Opel's Corsa. But these models are mostly targeted at the developed European and American markets.

Fiat's Palio, at sticker prices running from $7,000 to $8,000, is the first modern car specifically designed for the emerging economies of Latin America, Africa, and Asia, with a toughened chassis for rough terrain.

The company's strategy is risky. These countries, though growing fast, are susceptible to runaway inflation and political upheaval, which can kill consumer demand fast. But if Fiat can endure the turbulence, it could grab substantial pieces of the world's fastest-growing car mark
where the company forec
a 140% car-market expan
by 2004. Until now, manu
turers who sought sale
the Third World usually
cycled old models th
Fiat is gearing
plants for
great new adv
ture in Bra
Argentina,
Poland.
John Ross



PALIO: *Tough stuff*



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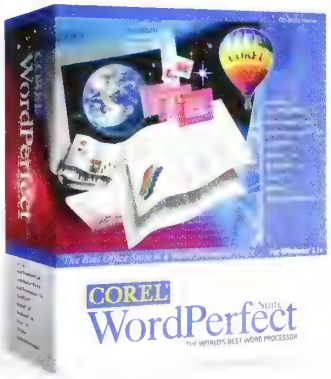

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- CorelFLOW™ 2
- Sidekick™ 2.0
- Dashboard™ 3.0
- Corel Screen Saver
- Envoy™ 1.0
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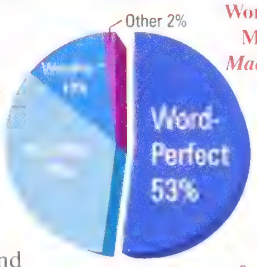
The figures speak for themselves. When people choose a standalone word processor, they choose WordPerfect. In fact, WordPerfect has consistently outsold and outperformed Microsoft Word for Windows 3.1x and Windows 95.



U.S. shipments of standalone word processors 1995—1.77 million units
Source: Computer Intelligence InfoCorp

WordPerfect 3.5 for Macintosh beats Microsoft Word for Macintosh for *MacUser* 1995 Editor's Choice Award.
MacUser, December 1995

WordPerfect 6.1 for DOS receives Editor's Choice.
PC Magazine, November 1995

WordPerfect 6.1 beats Microsoft Word for Windows 95 for Editor's Choice.
PC Magazine, November 1995

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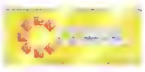

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Up Front

McCUSKER: *Check bounced*

SLUGFESTS

PRU'S MACHO-NACHO BROUHAHA

A PRUDENTIAL SECURITIES executive, irate over waiting for a table in a popular Baltimore bistro, sought revenge by closing its Pru checking account. As a result, a $7,913 check in the mail to a food supplier bounced.

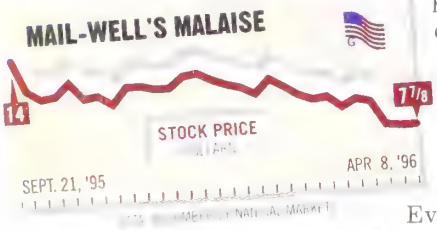
That's what Patrick "Scunny" McCusker, owner of Nacho Mama's, charges in a $50 million lawsuit he has just filed against Prudential. McCusker says that the incident left him with a deadbeat's reputation. At the center of the dispute is McCusker's cash-management account, where Prudential collects a small business' credit-card receipts and puts them in an account earning rates higher than what banks pay. The business draws on the account to write checks.

According to the suit, the trouble started when local Prudential Branch Manager Charles Baber grew loud and abusive over the wait, threatening: "The next time Scunny's check comes across my desk, see if it clears." Then Baber allegedly marched to a pay phone to cancel the owner's account. Prudential admits there was a tiff between Baber and McCusker, but blames the bounced check on a clerical error. Baber declines to comment. McCusker has moved his account to a bank. *Roy Furchgott*

IPO TURKEY WATCH

PUSHING THE ENVELOPE ON PATIENCE

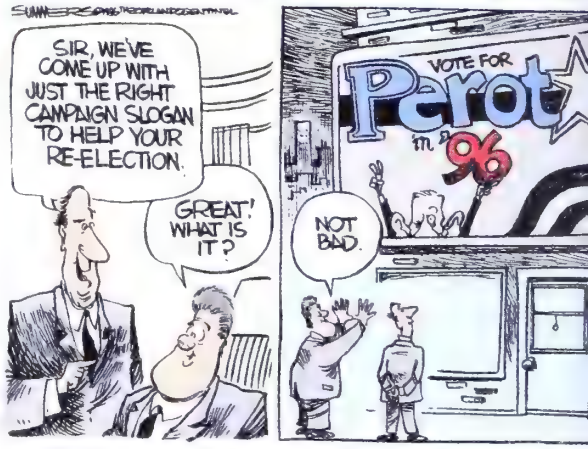
SOME INVESTORS MAY WISH they could return this stock to sender. Since going public at 14 in late September, envelope-maker Mail-Well has lost almost half its value, now trading around 8. Latest blow: Mail-Well recently said first-quarter earnings would be well below analysts' calls—20¢ to 25¢ per share, vs. 35¢. Formed in 1994 out of Georgia-Pacific's envelope unit, Mail-Well is the top U.S. maker of custom-designed envelopes.



CEO Gerald Mahoney blames rising (until recently) paper costs and bad winter storms for scaring off direct-mail advertisers, who are big Mail-Well customers. Mahoney expects a rebound due to a direct-mail surge from the Olympics and the political season.

But analysts doubt hurting direct-mailers will renew many big orders in the near future. Even Merrill Lynch, Mail-Well's chief underwriter, seems to harbor qualms. A limited partnership it runs, Merrill Lynch Kecalp, is eyeing selling two-thirds of its 5.6% stake. Merrill denies that's performance-related, saying it routinely sells after an IPO. *Julianne Slovak*

DRAWN & QUARTERED



BALLPARK FIGURES

GETTING PLAYERS' MINDS OFF MONEY

SUPERMODEL CHRISTIE Brinkley—also a professional photographer—is using her star power to save a few bucks for trading-card maker Pinnacle Brands. She was hired to shoot 16 players from last year's World Series teams, the Atlanta Braves and Cleveland Indians. The payoff for Pinnacle: None of the players demanded posing fees, which can run up to $10,000 apiece. "They agreed to do anything for her," says a Pinnacle spokeswoman.

CHEESE! *Christie's no-fee technique*

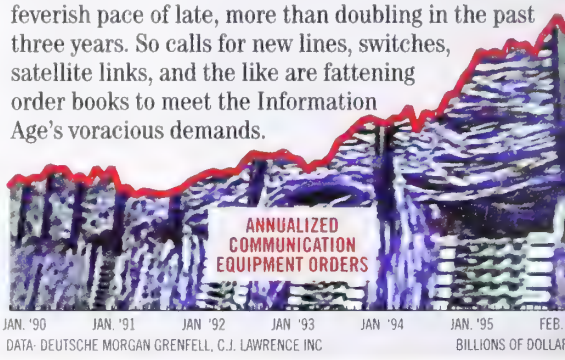
Indians' bad boy Albert Belle, for instance, once $50,000 for screaming ol ities at a reporter, posed Brinkley's 9-month-old s his lap. On each card's b self-portrait of Br with players as Braves' ca Javier Lopez True, Pinna paying her rates than And it mus licensing fe the players' and Major L Baseball.

Targeting t ish males, Christie card pected to sho in every 23 packs of the nacle Baseball Series II, July. Pinnacle, doing we spite the strike (revenu 80% in the last two y expects Brinkley to spur still more. *Wendy Z*

THE BIG PICTURE

TELECOM GEAR TRIUMPHANT

The wiring of America continues at an even more feverish pace of late, more than doubling in the past three years. So calls for new lines, switches, satellite links, and the like are fattening order books to meet the Information Age's voracious demands.



FOOTNOTES Average time to hire salespeople: 64 days; customer service reps: 46 days; managers: 90 days

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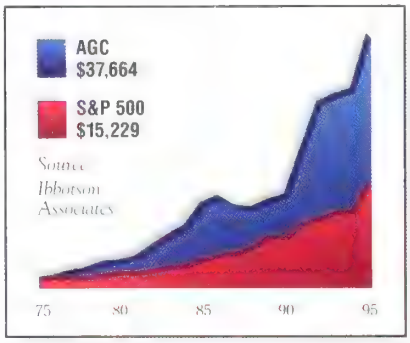

Over the same period, $1,000 invested in American General common stock grew to more than $37,000 for shareholders—an annualized total return of 20%.

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Readers Report

AN OILY ASSAULT ON BOB DOLE?

Your article "Bob Dole's oil-patch pals" (Government, Apr. 1) raises profound questions: Why did BUSINESS WEEK deliberately refuse to thoroughly and objectively research its topic before publishing an article casting aspersions on individuals with strong records of public service? Why did BUSINESS WEEK knowingly choose to base its article on limited and distorted perspectives?

Koch Industries cooperated with BUSINESS WEEK by providing substantial and factually correct data and additional independent sources to confirm this data. Yet BUSINESS WEEK chose instead to rely on innuendo and speculation instead of the facts. Why? Was its desire to "get" Bob Dole so great as to prompt the manipulation of the truth? Or could it be that BUSINESS WEEK was unduly influenced by people with hidden agendas? The article treated baseless accusations of others as reliable and ignored facts provided by more credible, verifiable sources. In addition to the disservice you have done to your readers, your irresponsible article has injured our company and our employees.

W. W. Hanna, President
Koch Industries Inc.
Wichita

Your article on the connection between Bob Dole and the Koch Industries gang simply pounds the final nail into the coffin of his hopes for the White House. Aside from being simply too old, he has been justly accused of having no ideas or vision for the country. Now we see he is also a political hack, bought and paid for, by a couple of oil tycoons in Kansas.

Geoffrey K. Wascher
Utica, Mich.

OUTSOURCING: HARD FIGURES, HARSH CRITICISM

Your article "Has outsourcing gone too far?" (News: Analysis & Commentary, Apr. 1) misses what I consider to be the most significant and potentially debilitating aspect of outsourcing—the [illegible] sion of ownership and control ove[illegible] knowledge base gained during the e[illegible] tion of the outsourced activity, parti[illegible] ly those activities associated wit[illegible] search and development. I find m[illegible] in a position of doing "more with le[illegible] an R&D environment, which trans[illegible] into outsourcing some work that [illegible] formerly done in-house. By doing [illegible] lose the ability to make and exploit [illegible] curious observation that might le[illegible] a technical breakthrough and pos[illegible] also to the next profitable product. [illegible] nology-based companies survive by [illegible] oping and controlling a technical k[illegible] edge base, and this cannot be effec[illegible] accomplished by outsourcing the acti[illegible] needed to gain that knowledge bas[illegible]

David Cha[illegible]
Staff Sci[illegible]
W. R. Grace [illegible]
Columbia[illegible]

WHY ASSUME A PLANNER CAN'T BE OBJECTIVE?

Your recent article "Choosing a [illegible] to the money maze" (Personal Bus[illegible] Mar. 11) is reasonably well done. [illegible] contained one assertion that is wi[illegible] foundation: "It's usually best to [illegible] with a fee-only planner who has no [illegible] cial stake in the product he or she [illegible] ommends." That is as accurate as sa[illegible] "It's best to read a newsmagazine [illegible] doesn't accept advertising from co[illegible] nies it writes about." Both stater[illegible] assume an inability on the part o[illegible] provider (of planning advice or nev[illegible] be objective. I reject—as I'm sure [illegible] do—that implication. You do a di[illegible] vice to the professionals of financial [illegible] ning by implying otherwise.

James A. M[illegible]
Regional Vice-Pres[illegible]
CIGNA Financial Advisor[illegible]
Ch[illegible]

TAXPAYERS CAN'T SUPPORT EVERY RESEARCH PROJECT

In "Does R&D need Uncle Sam's [illegible] (Developments to Watch, Mar. 11) [illegible]

Business Week

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Michael K. Hehir, President, Information Services Group.

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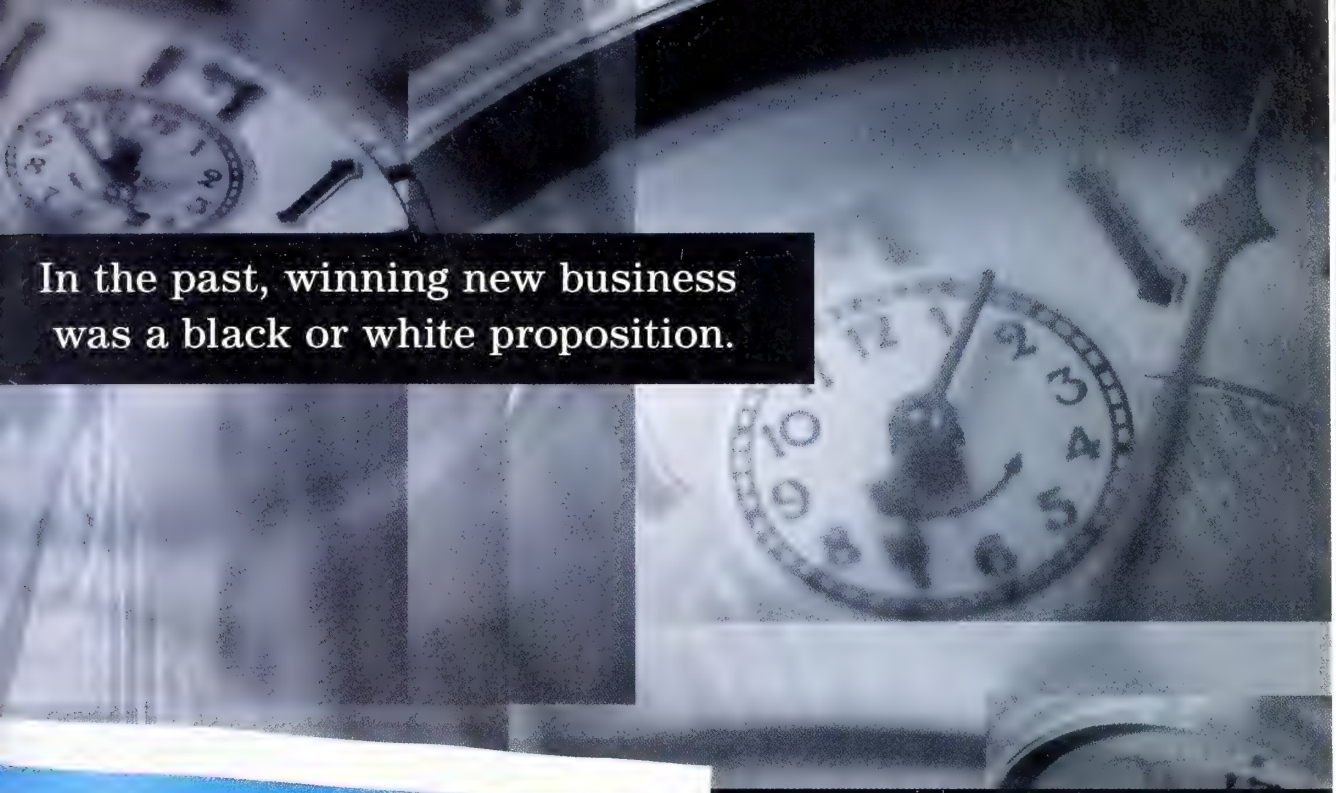

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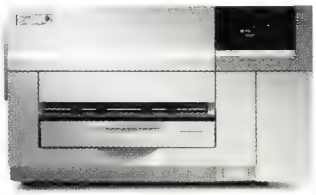

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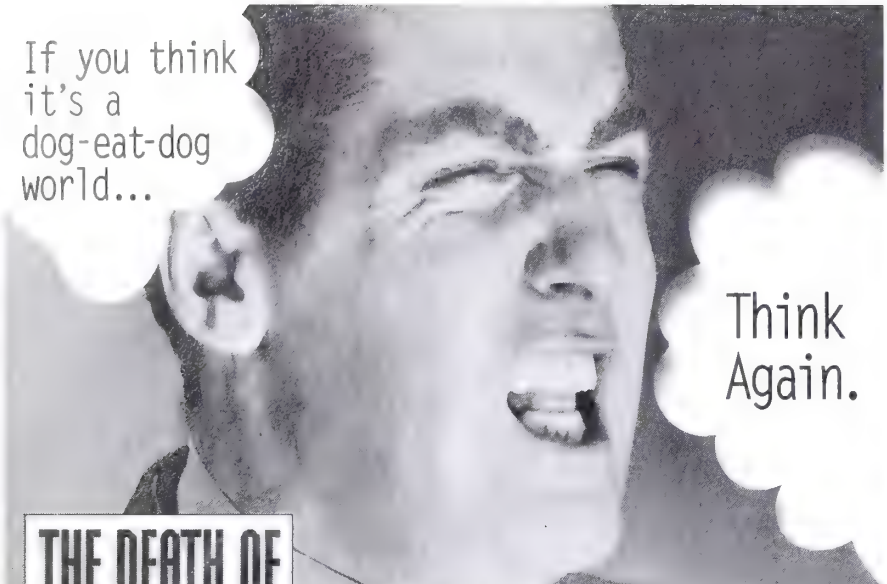

Readers Report

reported a study that concluded fed
funds for long-term technology rese
by companies can have the beneficial
pacts of "speed(ing) the process—and
duc(ing) companies' risk." The key i
is: What are the most beneficial u
of scarce taxpayer dollars? This cou
must face up to the fact that we do
have the money to fund every pet
gram that an Administration anxious
reelection can dream up. Hard cho
must be made, and they should be m
in favor of legitimate, basic-science
search activities that will provide
maximum benefit to the largest s
trum of the public.

Robert S. Wa
Chairman, Science Commi
U.S. House of Representat
Washing

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"Education is business' business"
itorials, Apr. 1) could not have been m
on target in calling for companies to
involved in our nation's educational
cess for their own good. A national
of business executives, recently cond
ed by Cannon Consulting Group, fo
that executives couldn't be less impre
by the quality of education in our c
try. The net result is the end of loy
to a strictly domestic workforce. S
77% of companies we surveyed hav
preference between hiring America
foreign workers—all they want is
ployees with the skills to do the job

Ellen Cannon, Presi
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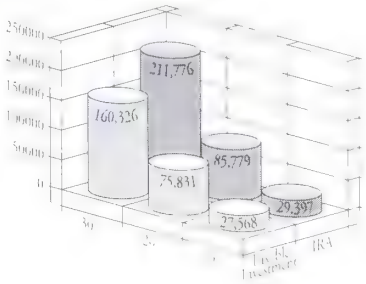

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CASE AGAINST IMMIGRATION
y Beck
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UDDLED MASSES EARNING FOR YOUR JOB?

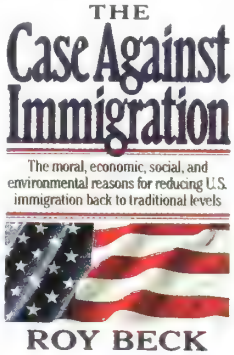
nmigration is a hotly debated top- : these days, igniting passions and plintering political camps. Some als and unions agree with conser- es such as Pat Buchanan that im- ants take jobs from Americans. r liberals see anti-immigrant senti- : as thinly disguised racism and e with traditional conservatives America's history of open arms ributes to the country's economic ty.

l sides can learn from Roy Beck, nington editor of *The Social Con-* , a strident quarterly that deals ly with immigration issues. Beck es no pretense of objectivity, as is from the title of his book. This times leads him to hyperbolic ex- es, as when he argues that Ameri- environmental woes would have solved by now but for the extra people immigration has brought in. also has a distracting habit of laps- nto leftish rhetoric.

ill, clear away the brush, and *The Against Immigration* presents a erful view that has been ill argued pponents of immigration and large- nored by the other side. The nub of ase: Large immigration flows have a endous impact on U.S. labor mar- And the pain has been felt by the om half of U.S. workers, whose es have declined for two decades. nwhile, employers have benefited cheaper and plentiful labor.

ue, all Americans gain to a degree, ise many goods cost less. And afflu- amilies can more easily afford nan- gardeners, and housekeepers. "Un- nately," Beck writes, "the roster nmigration losers is much larger includes some of America's most erable citizens: poor children, lower- ed workers, residents of declining n communities, large numbers of an Americans."

Some prominent labor economists recently have come to similar conclusions. For years, most studies found that immigration had little impact on American jobs or pay levels. However, the studies usually looked only at a city or region. More recently, economists such as George Borjas of Harvard University have conducted national studies that found large impacts. Borjas and others conclude that immigration has been responsible for up to a quarter of the increased pay gap between high- and low-skilled workers. And new arrivals may have been responsible for up to half of the collapse in the wages of high school dropouts since 1973, other studies have found.



Beck also argues that immigration may play a role in overall U.S. wage stagnation. Sluggish productivity growth since 1973 has been a central factor in holding down pay. However, productivity growth itself may have been affected by the surge in immigration that began in the 1970s. At the same time, baby boomers and women flooded the market, boosting the supply of labor. This held down the growth of capital investment per worker, sapping gains in efficiency. "Congress picked a terribly inappropriate period of U.S. history to be increasing the number of U.S. workers through immigration," Beck writes.

Unfortunately, Beck is so eager to castigate immigration that he sometimes undermines his own case. The book argues that the half-million annual average inflow of immigrants since 1965 is comparable to the 1880-1924 Great Wave, when nearly 600,000 newcomers arrived on average each year. (By contrast, 178,000 people entered annually between 1925 and 1965.) But a half-million people represented nearly 2% of the workforce in 1900, whereas it's less than half a percent today. This doesn't invalidate Beck's points about the past 20 years. But skeptical readers may feel as if they're being taken for a ride even when they're not.

Skeptics can learn something about American attitudes toward immigration, too. Advocates frequently invoke this country's openness to newcomers and cite Emma Lazarus' poem at the Statue of Liberty welcoming the "huddled masses yearning to be free." "For all of today's dewey-eyed remembrances of 'tradition' and 'openness,' however, mass immigration always has provoked widespread, deep-rooted objections," says Beck.

Indeed, France erected the Statue of Liberty in the 1880s to commemorate America as a shining example of democracy, not as a place of refuge, he points out. Not until 17 years later did friends of the obscure poet hang a plaque with her poem on the statue's base—where it joined many others. Subsequent media attention linked the statue and the poem and made them equally famous.

And, Beck points out, there is nothing new about basing objections to immigration on its effect on American workers. For instance, in the mid-1800s, California employers broke strikes with Chinese workers, who accounted for 25% of the state's workforce by 1880. Angry Americans lashed out with an ugly racial campaign that culminated in the Chinese Exclusion Act of 1882. For the next four decades, anti-immigrant sentiment was a constant in U.S. politics. Majorities in both houses of Congress voted to slow the Great Wave five times between 1897 and 1916, only to be vetoed by a President. The Great Wave finally was halted by legislation in 1924.

Today's immigration debate is as riddled with racial and nativist overtones as ever. Still, the labor-market impact of newcomers can't be ignored.

BY AARON BERNSTEIN

Bernstein covers workplace issues for BUSINESS WEEK.

BECK PRESENTS A POWERFUL ARGUMENT THAT IMMIGRATION HURTS AMERICA'S WORKING POOR

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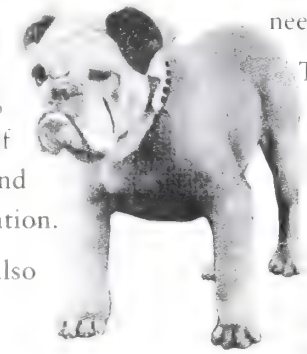

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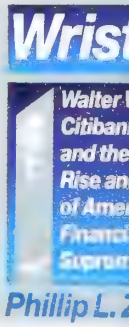
Books

BY BUSINESS WEEK WRITERS

WRISTON: Walter Wriston, Citibank, a the Rise and Fall of American Financia Supremacy
By Phillip L. Zweig
Crown • 952pp • $40

BOLD BANKER

Few industries have changed as radically in recent decades as banking. As BUSINESS WEEK Corporate Finance Editor Phillip L. Zweig observes, banking was transformed "from a public utility" run by "staid men with green eyeshades" in the 1950s to an industry of "gunslinging entrepreneurs."



No one is more responsible for this than Walter B. Wriston, CEO of Citibank from 1967 to 1984. *Wriston*, Zweig's wide-ranging biography, details how he revolutionized banking through such innovations as negotiable certificates of deposits, Eurodollars, and syndicated loans. Wriston also sidestepped or broke down numerous regulatory barriers, letting banks expand across state lines and move into new businesses. He became, says Zweig, "the world's most influential banker."

While Wriston was a brilliant visionary, Zweig shows, he was a lackluster manager. Citibank was hobbled by political rivalries and bureaucratic miasma. His most ill-considered move was a huge foray into Latin American loans. "Countries," he said, "don't go bankrupt." But banks that lend to them do, and waves of defaults by the early 1980s battered Citibank. Distracted by Third World restructurings, Wriston's successor, John S. Reed, let the bank run amok making bad loans to real estate developers and buyout artists. After Citibank nearly failed in the early 1990s, Reed brought it back by slashing costs and focusing on the consumer business. Having lost much of its "hubris," Zweig says, there's reason to believe Citibank's "near-fatal mistakes would not soon be repeated

n 1995 the Greek economy entered into an era of economic recovery. Close adherence to the Convergence Programme brought down inflation rate to single digit for the first time since 1973, while GDP increased by more than 2% which is above the target of the Convergence Programme. Likewise, interest rates on 1 year Treasury Bills decreased by roximately 3.3 percentage points since the end of 1994 and by ost 4 percentage points on an average basis. Private investment vity, which increased by 7% was complemented by a strong in public investment by 20%. The increase in private stment contributed to the worsening of the balance on current ount. However, in the long run, the development of new astructure projects will increase employment and output.

The overall improvement in macroeconomic figures led to an urge of the Greek capital market. Equities market capitalisation he end of 1995 equaled approximately GRD 4 trillion, thus wing an increase of 23% as against the end of 1994, while the E. General Price Index increased by 5.2% during the year, as osed to a 9.3% decrease during 1994. Equities turnover eased by 11.3% over the year. Capital raised by IPOs in 1995 eased by 75% since 1994 but the variety of companies being d was reinforced. The P/E ratio equaled 9 at the end of 1995. overall performance of all listed stocks, as defined by their y price changes adjusted for dividend payments, improved in 5, and the majority of stocks exhibited positive returns. Thus, 995, shares in the main and the parallel market showed a rn of 17.9% and 36.7%, respectively.

The introduction of new products into the capital market, as as trading by remote access is expected to enhance the appeal he capital market both to investors and to issuers. We believe the sector most likely to outperform the General Price Index he Construction companies' as it will benefit from the lementation of major infrastructure projects financed by the . Furthermore, the majority of listed companies will be ienced by the harmonisation and expansion of trade in the kan area, since as mentioned by the «Emerging Markets lyst»: «...the Greek corporate sector will likely be the biggest mercial winner of the new Balkan peace agreement».

Trading facilities available from the newly established hange Center in Thessaloniki will extend the capacity of the ital market, while preserving its unity. Shares of companies rating in the Balkans are expected to be traded therein, forcing the international profile of the Greek capital market. lly, the dematerialisation of shares within the first trimester of year will speed up the settlement procedure. The ultimate goal achieve a settlement time of T+2, as opposed to T+4 which e rule today.

As political and economic stability settles down to normal in Balkan area, Greece assumes again its important position ing European Union with the Balkans, the Black Sea and the dle East. It's time investors showed faith into the Greek capital ket and established the ATHENS STOCK EXCHANGE as NEW PLACE TO BE.

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BY STEPHEN H. WILDSTROM

NOW THIS IS PLUG AND PLAY

New PC connectors will make setup a snap and speed the transfer of data

My desktop computer has 12 connection outlets on the back. The bits and pieces I usually hook up use eight different types of connectors and a rat's nest of cables. Still, it's not enough. A modem and scanner take up my two serial ports, so every time I want to attach a digital camera or a link to an electronic organizer, I still have to unplug something.

Help is on the way, however, and it will do a lot more than just clean up that mess of wires lurking behind my computer. The Universal Serial Bus (USB), which is being promoted by a group of companies led by Intel, will let you, in theory, hook up as many as 127 different devices, using a single type of connector. And it will transfer data at 12 million bits per second, which is up to 100 times as fast as the current links. Beginning later this year, Intel will include USB connectors on many of the PC motherboards that it makes. Since Intel boards go into about half of all personal computers, the manufacturers of add-on devices will find a ready market for the new standard. Plus, add-in cards with a USB connector should also be on the market late this year.

With the USB, the computer industry is finally cleaning up some of the mess left by the Intel PC's haphazard evolution. The serial ports that are used to connect modems go back to an era when a speed of 300 bits per second was considered fast. The printer ports, designed at the dawn of the PC era, were never intended to handle printers that talk back to computers.

In addition to boosting performance, the new format will help PCs start to live down their reputation for being difficult to set up and maintain. The USB will hook up devices with a thin cable that uses a plug about a half-inch wide and an eighth-inch high. And add-ons don't have to connect directly to the computer. For example, you might plug only your keyboard and printer into the computer. Your mouse and joystick could then plug into the keyboard, while a modem and scanner might attach through the printer. Because the system is completely plug-and-play, you can hook up attachments in any order and even disconnect and reconnect accessories without rebooting.

BETTER EAR. Of course, it wouldn't be the computer industry if everyone agreed on one standard. Another group is pushing a connection method, capable of speeds of at least 100 megabits per second, called IEEE 1394. (Apple Computer, with a better ear for names than Intel or Texas Instruments, calls its version of 1394 "FireWire.") The USB is cheaper and should be available at least several months earlier than the 1394, so consumers will see a lot more of it at first. But consumer-electronics companies are very interested in 1394 as a method of hooking up a new generation of digital TVs, stereos, and other home-entertainment gear to one another or to computers.

Fortunately, both new methods of connecting add-ons can happily coexist on the same computer, although it means you'll have at least two kinds of connectors. These new systems are one step toward what Microsoft calls the Simply Interactive PC. The goal is computers more flexible than today's machines in boxes that owners will never have to open to upgrade. Hewlett-Packard and Compaq have shown "sealed-box" prototypes that sport both USB and 1394 connections.

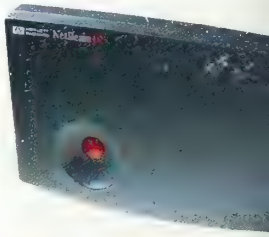
More important than the details of these new connections is the philosophy they represent. The industry knows that most people still find PCs too complicated. By making simplicity a top priority, hardware makers will create a market for themselves while making life easier for their customers.

BULLETIN BOARD

LAPTOPS

EASY HOOKUP

Connecting a laptop to a local-area network (LAN) just got a lot easier with the NetBeam IR from Hewlett-Packard (800 752-0900). The $289 device sits on a desktop and connects to an Ethernet LAN. Any Windows 95 laptop equipped with an infrared port—increasingly a stan-



dard item on notebooks—can attach to the network simply by coming within range of the NetBeam. Older laptops can communicate only at 115 kilobits per second, making work over the network sluggish. But newer units that comply with the latest Infrared Data Association standard can run at up to 4 megabits per second, giving you about as much speed as a wired connection.

WORLD WIDE WEB

STEE-RIKE!

With the baseball season in full swing, the World Wide Web lets you keep track of every play of every game. Instant Baseball from Instant Sports makes STATS' play-by-play service free on the Web at http://www.InstantSports.com/. Plays are generally posted within two minutes of the live action. Instant Sports is testing a version that will allow anyone with a browser that can handle the Java language, such as Netscape Navigator 2.0, to watch an animated game pitch by pitch.

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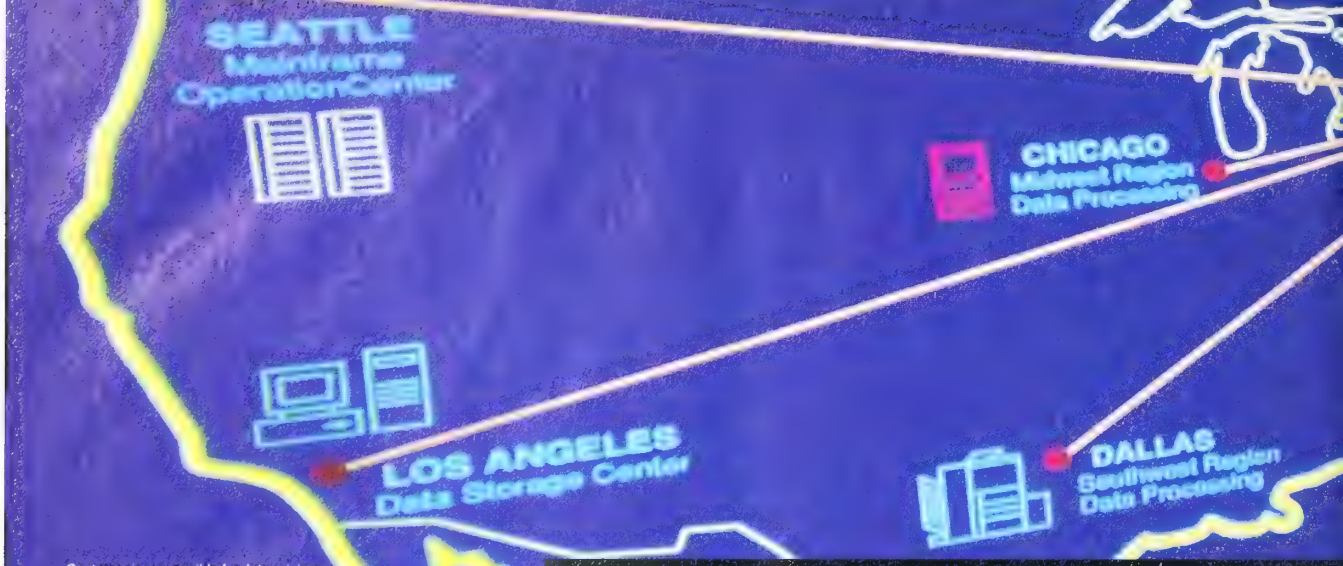

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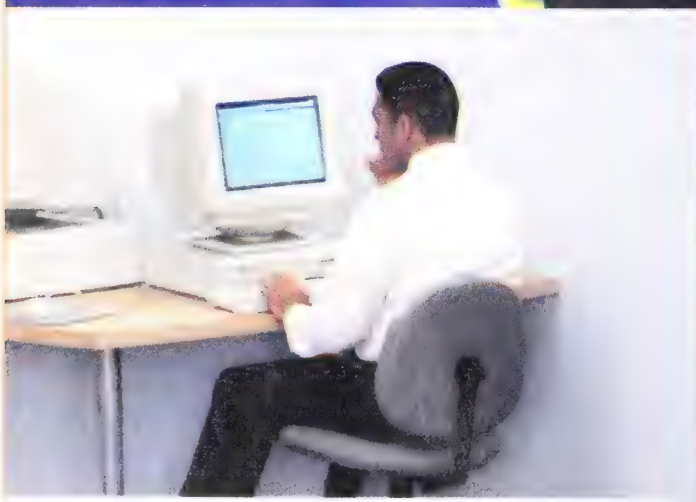

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BY ROBERT KUTTNER

SOARING STOCKS: ARE ONLY THE RICH GETTING RICHER?

ILLUSION: Despite appearances, equity ownership is still highly concentrated—while most Americans' earnings are stagnant

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez Faire*

Here is a reassuring economic fable about people's capitalism: Today, wage and salary income may be flat while stock prices soar—but it doesn't matter. Why? Because stocks, after all, are ultimately owned by individuals. If the economy takes more of its returns as corporate earnings and capital gains rather than labor compensation, this is healthy for savings and investment. At the same time, it enriches the growing number of people who own stocks. Plus, the shift neatly fits the emerging era of the "virtual corporation," in which people are responsible for their own economic security.

Superficially, this case is plausible. Money is pouring into the stock market. Investors added $55 billion to mutual-fund holdings during the first quarter of 1996. Some 67 million American workers are covered by company retirement plans, according to the Employee Benefit Research Institute. An additional 9 million have individual retirement accounts and Keoghs. And, as the typical pension plan shifts from defined-benefit to defined-contribution, more ordinary Americans think like investors. One has to go back many decades (say, er, to 1929) to find a time when so many small fry were in the market.

SMALL POTATOES. With stock ownership ostensibly so democratized, therefore, it is a rude awakening to look at the actual statistics on the concentration of stock ownership. According to one of the most comprehensive studies to date, by economists James M. Poterba and Andrew A. Samwick, writing in the *Brookings Papers on Economic Activity* (Vol. 2, 1995), 36 million households held some form of stock in 1992, directly or through institutions, or about 37% of all households. This was up from 33% in 1983.

Pretty impressive. Most of these holdings were small potatoes, however. The top 5% of all households owned fully 77% of equity holdings, including individual shares, defined-contribution pension funds, IRAs, Keoghs, 401(k)s and the like, and mutual funds. The bottom 80%—four households in five—owned just 1.8% of the total value. This was a slight gain from 1983, when the figure was 1.02%. But it is a long way from people's capitalism. In the case of directly owned stocks, as opposed to institutionally held investments, the top one half of one percent owned 59% of the total value.

While the distribution of income has been growing more unequal in recent years seems positively egalitarian compared w the distribution of stock ownership. The b tom 80% had about 43% of total 1992 inco down six percentage points from 1983 a 10 percentage points from 1962. But desp the widely publicized proliferation of mut funds, 401(k)s, pension plans, cash mana ment accounts, and the like, the distributio financial assets remains astonishingly hig skewed.

DISCOURAGING WORD. This is why peop capitalism is largely a mirage, even if m than 100 million Americans are in a se shareholders. Most people continue to r on wage and salary income to live. And w and salary income is stagnant and grow more unequal—mainly because the econom managed for the financial markets that th on low growth and wage restraint.

All this suggests an epic shift in bargain power from labor to capital. That is har surprising, given America's slow growth, h immigration, higher-than-acknowledged employment, and a shift to part-time, c tract, and temporary labor.

This imbalance will remain as long as Federal Reserve (responsive to the same nancial markets) insists absurdly that 2 noninflationary growth is the best the eco my can do. Officially, unemployment is j 5.6%. But the Bureau of Labor Statist new "U-6" measure of expanded unempl ment, which includes discouraged work and involuntary part-time workers, is 10. Massachusetts Institute of Technology eco mist Lester Thurow puts the real unempl ment rate at over 14%, or higher than Eu pean levels. Loose labor markets offer only convincing explanation for why wa keep lagging behind profits and productiv growth.

It is comforting to believe that what don't make as wage and salary workers, make as shareholders in one big, happy ec omy. It would be lovely to broaden genu stock ownership. But that would take revo tionary changes. Either all corporations the government) would have to offer m datory portable-pension, stock-option, or pr it-sharing plans—and not just for executive or else wages would have to rise so t ordinary people could afford to save and vest more. Until that day comes, peop capitalism is a convenient fiction.

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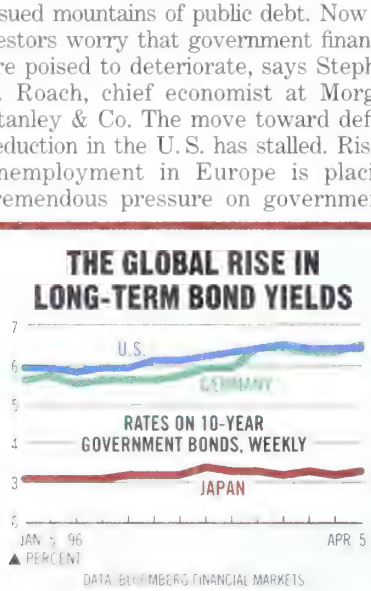
BY CHRISTOPHER FARRELL

GLOBAL BOND SHOCK

Blame the mountain of public debt

Bond markets are cratering throughout the industrial world despite vastly different economic fundamentals. In the U.S., fear that accelerating growth will push up labor costs, igniting inflation, has sent interest rates higher. Yet in Europe, yields are also rising—even as economic conditions deteriorate and the unemployment rate hits 11%. Interest rates are going back up in Japan, too, although its economy is barely stirring after years of stagnation.

Blame government and an era of global capital flows. Over the past few decades, major industrial nations have issued mountains of public debt. Now investors worry that government finances are poised to deteriorate, says Stephen S. Roach, chief economist at Morgan Stanley & Co. The move toward deficit reduction in the U.S. has stalled. Rising unemployment in Europe is placing tremendous pressure on governments



to hike spending. Japan's banking system needs some type of government-backed bailout. It's not surprising that the bond-market correction has been global in scope with reflationary fiscal policies in the cards in all the major industrial nations, says Roach.

XENOPHOBIA AND JOBS IN GERMANY

Little cause and effect

Ethnic tensions and hostility toward immigrants are rising just about everywhere. Does violence stem from high unemployment and fierce rivalry for jobs, or is something more complex at work? A National Bureau of Economic Research study on violence against foreigners in Germany by economists Alan B. Krueger of Princeton University and Jörn-Steffan Pischke of the Massachusetts Institute of Technology sheds light on this troubling issue.

Acts of violence against outsiders have increased sharply since the unification of West and East Germany in 1990. Foreigners were 9.5% of the population in the west in 1992, compared with less than 1% in the east. Yet from 1991 to the first half of 1993, using data from newspaper reports, the incidence of violence is much higher in the east, with three times as many violent acts per 100,000 people and 50 times as many incidents per 1,000 foreigners. Ethnic crimes in the east take place mostly in rural regions while it is concentrated in metropolitan areas in the west.

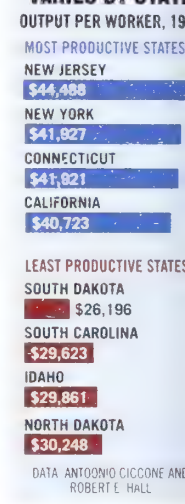
Surprisingly, especially to its authors, the study shows little connection between violence and poor economic conditions in the east. Using German county data, neither low wages nor high unemployment have much impact on levels of violence. Their finding is consistent with German police records and youth surveys. Similar research in the U.S. also shows violent crime unrelated to the unemployment rate. Krueger and Pischke do find that ethnic violence is most prevalent in those counties in the east farthest from the western border, other things being equal. They speculate that these counties are more insular and less exposed to foreigners, and that the institutions of law and order are weaker than elsewhere in Germany.

WORKHORSE STATES

Why U.S. productivity rates differ

Economists have long argued about why productivity levels differ among the advanced industrial nations. Less appreciated is that productivity levels are far from uniform in the 50 states of the U.S. economy. In 1988, output per worker in New Jersey, the nation's most productive state, was two-thirds larger than in South Dakota, the nation's least productive state (table). Average output per worker in America's 10 most productive states was one-fourth higher than in the 10 least productive states, according to a recent *American Economic Review* paper by economists A tonio Ciccone of both Spain's Universi Pompeu Fabra and the University California at Berkeley and Robert Hall of Stanford University.

The authors find, not surprisingly, t states with better-educated workers te to have higher productivity. But more important and far less obvious is that states with more workers per square mile—or so-called employment densities—are more productive as well. The gains apparently stem from economies of scale, vast pools of skilled labor, easy communication of technological innovations, and other benefits that come from having many people interacting in one area. The benefits of density h explain why cities persist in being vi centers of economic activity despite h costs and multiple social problems. T economists estimate that workers in 15 counties nationwide with the low densities produce on average less th half the output of New York City wo ers. They also calculate that doubling employment density increases avera labor productivity by 6%.



DO STOCKS REALL BEAT BONDS?

Yes, but likely by narrower margi

Call it the Wall Street mantra: Ov the long haul, stocks always o perform bonds. Over the past 125 yea stocks have soundly beaten bonds 400%. However, much of this super performance came between 1942 a 1962, a 20-year period of abnorma strong real economic growth followi the Great Depression, says James Paulson, economist at Investors Ma agement Group, a money-manageme firm in Des Moines. From 1870 to 19 bonds offered investors returns nea equal to those of stocks and were le volatile. With time, investors should pect equities to beat bonds but perha by narrower margins than the W Street mantra suggests.

AMES C. COOPER & KATHLEEN MADIGAN

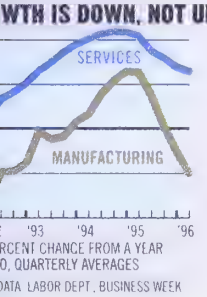
SPOOKED BOND MARKET AY HAUNT THE SECOND HALF

U.S. ECONOMY

Ever since the financial markets were deregulated in the y 1980s, the bond market has behaved like a manepressive, overreacting to every squiggle in the nomic data. Well, get out the lithium again.

recent weeks, bonds have sold off with a geance usually reserved for oil shocks and wars. As sult, long-term interest rates, including those for tgages and other consumer loans, have risen by ly a full percentage point. The yield on 30-year asury bonds is fast approaching 7%, and 30-year d mortgages have topped 8%. Two-year rates are e 6%, up more that 1¼ points.

THE TREND IN JOB WTH IS DOWN, NOT UP



RCENT CHANGE FROM A YEAR O, QUARTERLY AVERAGES
DATA LABOR DEPT., BUSINESS WEEK

The trouble is, the rate runup could easily clip half a percentage point from what growth in real gross domestic product would otherwise be in the second half. Already, refinancings have plummeted. The housing market may be headed for a disappointing building season. And demand for durable goods will suffer, especially given the mounting alliment debt of households—and now, the higher of carrying those IOUs.

owever, the bond market is still focused on the half. The market has sent rates skyward, thanks to owth scare set off by the surge in February pay- and egged on most recently by a stronger-than-exed jobs gain in March.

he market fears that a robust economy will set e and price pressures in motion, forcing the Federal erve to hike short-term interest rates. Interest- futures markets are betting on a Fed tightening yearend. But if strong growth is just a scare, as a er reading of the data suggest, higher rates will cut the economy's already modest trend.

E BOND MARKET'S HISSY FIT all started with ruary's 705,000 surge in payrolls, which a Trea- Dept. memo called "statistically implausible," much he chagrin of the Labor Dept.'s data gatherers. In March report, Labor revised the gain to 624,000, a 12-year high, and it also said that March jobs by 140,000, twice what Wall Street had expected. ever mind that the March increase was close to the age monthly gain for all of 1995, when the economy struggling to grow 1.3%—or that the unemployment rate ticked up to 5.6%, from 5.5% in February.

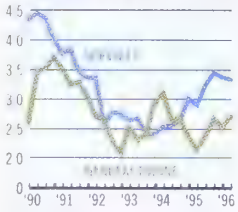
Instead, the bond market fixated on the 206,000-per-month average growth during the first quarter, a big jump from the 142,000 average in the fourth quarter. Of course, when the May data come out and February's bloated number leaves the three-month average, the trend probably will look a lot more like last year's pace. Besides, even an average of 206,000 jobs per month pales beside the 1994 average of nearly 300,000, when the economy was growing at a 3.5% clip.

The market also ignored the fact that the average first-quarter workweek was below that of the fourth quarter. That means that despite faster job growth, overall employee hours—a good measure of economic activity—actually fell last quarter. Historically, that has usually signaled economic weakness, not strength.

LOOKING LONGER-TERM, the trend in payrolls is down, not up. That's typical in an aging expansion. The slowdown shows up in both services and manufacturing. Also, wage growth remains tame (charts). Services, which added 212,000 jobs in March, have generated all of the payroll gains in the past year. But while service employment is up 1.9% from a year ago, that pace is down from 3.1% in the first quarter of 1995.

Manufacturers are still shedding jobs, with payrolls plunging by 62,000 in March. Job losses in motor vehicles and parts explained half of that drop, reflecting the strike at General Motors Corp. But the economy cannot be truly robust without a healthy factory sector, which, as other data show, is still lacking.

WAGE GAINS: UP A SHADE IN SERVICES



▲PERCENT CHANGE FROM A YEAR AGO, QUARTERLY AVERAGES
DATA LABOR DEPT., BUSINESS WEEK

The bond market's big worry is that strong labor markets and demand will fuel inflation (page 34). Right now, it has an eye on commodity prices. The Knight-Ridder-CRB futures index is at a 7½-year high. The rise has not been broad, though. It can be traced mainly to a 50% surge in grain prices in the past year, a result of a bad harvest and strong foreign demand. Energy prices are also up, given the $3-per-barrel jump in oil since January. However, industrials prices are down from a year ago.

Higher raw-materials costs for food and energy may work their way into the producer and consumer price indexes in coming months. But those effects won't last. Core inflation, a measure of inflation's underlying trend

because it excludes the ups and downs that food and energy can cause, will continue to behave itself.

Meanwhile, wage growth, while up a bit in the service sector over the past year, is going nowhere in manufacturing. Overall, the annual rise in hourly wages was 3% in the first quarter, up from 2.7% a year ago but down from 3.2% two quarters ago. Combined with the slowing trend in job growth, that pace hardly suggests that consumers are ready to splurge.

INCOME GROWTH remains steady enough to justify consumers' willingness to take on more debt. However, something else the bond market hasn't noticed is that the pileup of old IOUs is taking a bigger bite out of household budgets, leaving less cash for new spending.

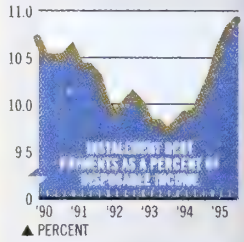
Consumer installment credit jumped by $12 billion in February, or at an annual rate of 13.9%. Revolving debt, which includes credit cards, rose an additional $6.4 billion. Auto financing was up by $3 billion.

Outstanding debt hit a record 19.1% of disposable income in February, so it is no great shock that credit constraints are rising. Credit-card delinquency rates edged up to 3.3% in the fourth quarter, from 2.4% a year earlier. And the rate will go higher in 1996, says the American Bankers Assn.

In the fourth quarter, payments on mortgages and installment debt grabbed 16.7% of aftertax income. Repaying installment debt alone took 10.9%, the highest rate in 20 years (chart). Debt service is probably wi the recent pickup in income has not touched off spending spree. Since August, real disposable incor has increased at a 4.3% annual rate, while real co sumer spending is up just 2.3%.

Is the debt spurt dangerous to the economy? N yet. In general, debt levels become a problem or when employment and income growth get into troub

Moreover, although the ratio of installment-debt payments to income has risen, the mortgage ratio is down, thanks to past low rates and the 1993 wave of refinancings. Also, the delinquency rate is still below the levels hit before the past two recessions, while the rate on overdue mortgage payments is less than that of the 1980s and early 1990s.



DATA: FEDERAL RESERVE BOARD

The bottom line: Bond yields are now more th four percentage points above the current inflation ra far greater than the historical average. That spread i plies that the bond market believes inflation is about accelerate, a scenario the data just don't support. As result, when the market's growth scare finally eases coming months, bond yields are likely to fall—prefe ably before they do any more damage.

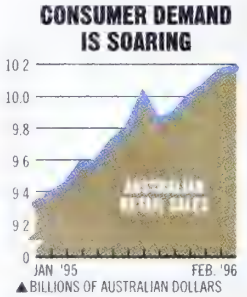
AUSTRALIA

A NEW GOVERNMENT'S GROWING PAINS

Although Australia's recovery remains on track, economic growth is slowing down. And that could pose a problem for the new coalition government of the Liberal and National Parties under Prime Minister John Howard.

The latest signs of a slowdown came from the Westpac index of leading indicators, which rose just 0.1% in January while the coincident indicators fell 1.2%. Long-term interest rates have had to follow U.S. rates high- so building permits are down % so far this year.

alian real gross domestic duct will likely grow 2.7% in 96, says a consensus forecast by Datastream International Ltd. That's down from 1995's 3.1% gain, but consumer and business spending are likely to remain solid. In fact, retail sales rose 0.2% in February, to a record (chart). And February payrolls rose by 14,300, although the jobless rate stayed at 8.4%.



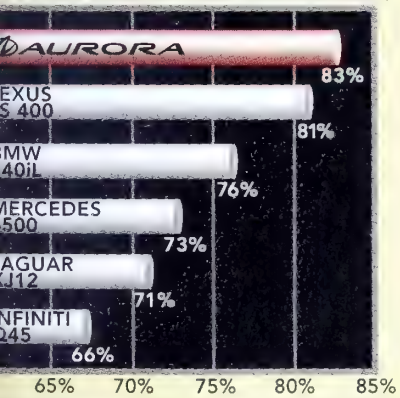
DATA: AUSTRALIAN BUREAU OF STATISTICS

The recovery, however, has rekindled some old worries. First, after some improvement in mid-1995, the trade deficit is widening again because domestic demand is lifting imports. The February current-account deficit widened by 4% to A$1.71 billion (U.S. $1.34 billion) in January. Second, consumer prices increased a hefty 5.1% in 1995, double 1994's pace. One reason is rising wages. Total weekly pay was up 2.4% in 1995, but pay for full-time adult workers surged 8.2%. The Reserve Bank of Australia has warned that wage growth must slow, or it will have little choice but to raise interest rates.

Moreover, there will be little help from fiscal policy. The budget deficit, excluding asset sales and debt repayment, will likely total A$9 billion in the fiscal year ending June 30, and is expected to come in at A$7.6 billion next year. But those numbers depend on 3.25% GDP growth—higher than the consensus forecast. Howard has pledged to cut public spending sharply over the next two years to push the budget into surplus. Slower growth, however, will make that promise difficult to achieve.

F THEY GRADED RESALE VALUE ON A CURVE, WE'D BE THE NE OUR CLASSMATES TRIED TO BEAT UP AFTER SCHOOL.

AURORA LEADS LEXUS, MERCEDES, V AND INFINITI IN VALUE RETENTION.*
MODEL USED VEHICLES – % OF ORIGINAL M.S.R.P.)



ations based on 1995 M.S.R.Ps from the Jan. 1996 N.A.D.A. Used Car Guide® Central Edition and N.A.D.A. trade-in values Feb. 1996 N.A.D.A. Official Used Car Guide® Central Edition.

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For those of you who really like to do your homework before buying a car, here's some informative, and perhaps surprising, news. The N.A.D.A. Official Used Car Guide® shows the Aurora™ is a leader in value retention in its class—right up there with Lexus, BMW and Mercedes. A point that becomes less startling when you learn Aurora was also recently named "Best Overall Vehicle in Total Value" by Strategic Vision, Inc. And therefore, is now one of the smartest automotive investments you can make. All things considered, can you blame our classmates for feeling a little jealous?

AURORA

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Strategic Vision's™ 1995 Vehicle Experience Study is based on a total of 31,440 new vehicle buyer responses indicating owners' positive and negative experiences during the first 90 days of ownership.

A CASE OF THE SHAKES

Despite wage and commodity hikes, inflation fears are overblown

Gasoline prices post new highs, while the cost of heating oil spikes. In Chicago's futures pits, traders bid corn prices to record levels. Philip Morris Cos., the world's biggest tobacco company, tacks 4¢ more a pack onto its U.S. cigarettes. And another strong employment report—business added 140,000 jobs in March—hints at new pressure to hike wages.

Is inflation coming back?

Wall Street certainly seems to think so. Although the consumer price index has risen at a rate of just 3% or less for five straight years, financial markets act like inflationphobes at the first hike in a price. That's why bond traders pushed long-term interest rates up from 6.67% to 6.94% in four days' trading after the Apr. 5 jobs report—and up from 6% at the beginning of the year (charts). Stock traders ran for cover, too: The Dow Jones industrial average fell 197 points between Apr. 8 and 10. Traders figure higher prices and wages mean no more cuts in interest rates by the Federal Reserve. "If anything, the Fed's next move is going to be upward," warns Charles Lieberman, chief economist at Chase Securities Inc.

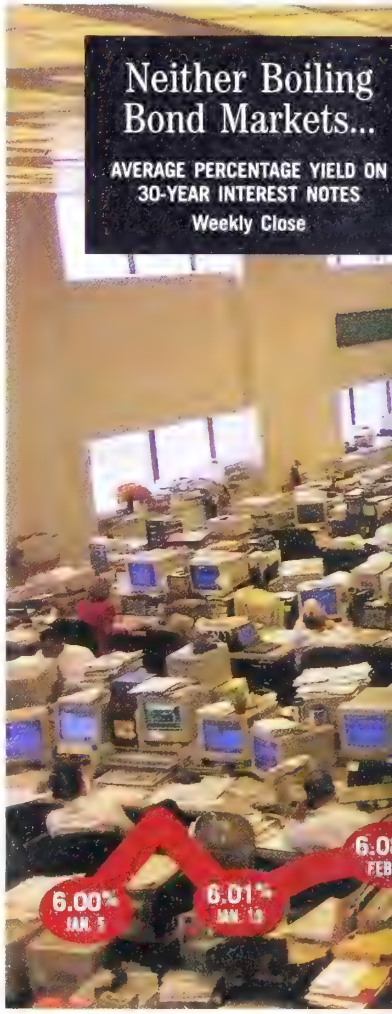
But the Street's fears of a wage-price spiral are overblown. The surge in commodity prices—especially oil—traces back to fluky circumstances that aren't [illegible] to last long. Wages in 1996 may post their biggest gains of the current recovery, but that's a meager 3% hike. Labor markets aren't nearly as tight as the first-quarter jobs data suggest. And for every Philip Morris, whose 46% market share can make its Apr. 8 price hike stick, there are a dozen makers of everything from steel to computer chips that are being forced by domestic and global competition to swallow higher costs and hold—or even cut—prices.

Nor is the Fed likely to step on the brakes. The recent surprising strength in the economy has given the central bank what it likes most: an election-year bye. Strong data on jobs, consumer credit, and auto sales are likely to snap the Fed's rate-cutting streak, which brought the rate on overnight funds down from 6% in 1995 to 5.25% on Jan. 31. But with no clear signals that the economy is overheating, Fed Chairman Alan Greenspan can spend the Presidential campaign season on the sidelines. The Fed chief isn't afraid to act in an election year—he earned George Bush's lasting enmity by raising rates in 1988. But "Greenspan would have to be pretty shaken by price hikes to raise rates this summer," says David M. Jones, chief economist at bond trader Aubrey G. Lanston & Co.

HAYWIRE. The latest inflation scare can be blamed in part on a force beyond even Greenspan's control—the weather. Just as January's blizzards made hash out of jobs statistics, a cold, wet spring is sending commodity prices haywire. With frostbitten Midwest farmers falling behind in their planting as a grain shortage looms, prices are setting records (page 36). And April's snows in the Northeast have boosted demand for heating oil even as the spring driving season pushed up gasoline pump prices 8.7% since January, to an average of $1.26 a gallon.

But those hikes won't last. In advance of the Apr. 11 and 12 release of producer and consumer price figures, some analysts feared a spike in inflation. F for the year, consumer prices aren't li ly to rise much more than 3%. Tr faster growth overseas, particularly Asia, is boosting commodity prices. F traders don't see prices staying up long. With the U.N. offering to let I sell $2 billion worth of its embargo oil, futures traders predict that toda $23 barrel of crude oil will sell for $ by summer. "If Iraq and the U. agree—and there's better than an od on chance—we'll see the flip side of t price hikes real quick," says Prudent Securities Inc. analyst Frank P. Knu tel. Meanwhile, fierce competition mea that food processors and other produc often have a hard time passing on day's higher costs to consumers.

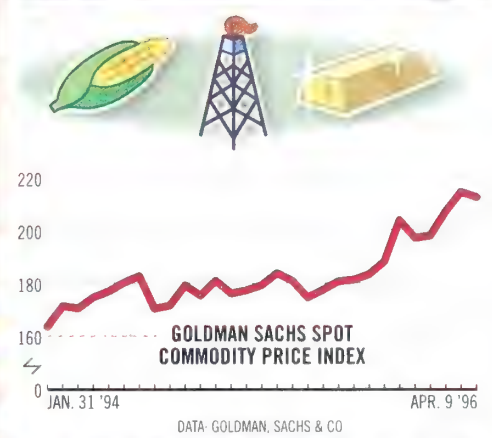
Some prices are falling. Procter Gamble Co. plans to cut coffee prices 4%—or 10¢ on a 13-ounce can of reg lar-ground Folgers—on May 6. Than to plunging paper-pulp prices, P&G a



CHICKEN LITTLES: *Bond traders ran f cover at the first hint of price hikes*

The big gain in wages is a meager 3%, and crude prices will

...Nor Steamy Commodity Pits...



...Have Heated Up Inflation

berly-Clark are bidding down tis- paper and paper towels by 4.8% to . And P&G rolled back a price hike isposable diapers.

eanwhile, the going rate for com- chips is plummeting. A 16-megabit ory chip now sells for $25, down $40 at the end of 1995. And the l likely won't end soon: The Semi- uctor Industry Assn. reported on 9 that its key book-to-bill ratio fell record low in March, with the in- ry receiving only $80 in orders for y $100 in current sales. And a slew ew memory-chip plants are under truction—including five in Taiwan, king that country's big push into naking. For consumers, the result is powerful computers for less: Dell puter Corp. offers a Pentium Pro 16 megabytes of memory for 0, down about 20% since December. ven Detroit, which is enjoying a increase over 1995, is treading fully. Ford Motor Co. offers rebates l of its 15 Ford models, from $600 Escorts to $2,000 on Broncos. Sales of the redesigned '96 Taurus, loaded with standard features—and a $19,150 base sticker—have been so disappointing that Ford just rolled out a stripped-down Taurus G selling for $17,945 after rebate. Indeed, with stickers on domestic and imported cars and light trucks outstripping inflation for the past four years, 5% vs. 2.7% a year, carmakers worry about pricing themselves out of the market. "We've got to work to make cars people can afford," warns Chrysler Chairman Robert J. Eaton.

IMPORT STRENGTH. Foreign competition adds to the downward pressure. Higher U.S. interest rates propelled the dollar to recent highs against the yen and mark. That makes imported products cheaper for American consumers.

With prices under pressure throughout the economy, the only force likely to boost inflation is wages. Some of the labor-market evidence is worrisome. Payrolls grew by an average of 206,000 jobs a month in the first quarter. That can't be sustained for long, since analysts say the labor force can grow by only 110,000 new workers a month. Wage growth bottomed out in 1993, when pay rose 2.4%, and has since accelerated to 3%. Still, notes Labor Secretary Robert B. Reich: "The sense that workers are easily replaced is holding a lid on wages and compensation." Total pay and benefits grew only 2.8% in 1995, less than in 1994, and likely won't top 3% in 1996.

That's not enough to ignite inflation—or spur the Fed to action. Greenspan, for one, doesn't believe low unemployment will automatically trigger a wage-price spiral. The Fed chief doesn't plan to relax his guard or spoil his record of the lowest inflation in three decades. But with Wall Street's inflation vigilantes reacting—and overreacting—to the slightest hint of price pressure, the central bank does not have to act. Even with a chaotic spring in Chicago's pits, look for a quiet summer on Constitution Avenue.

By Mike McNamee in Washington, with Robert D. Hof in San Francisco, Zachary Schiller in Cleveland, Gary McWilliams in Houston, and bureau reports

e U.N. allows Iraq to sell $2 billion worth of embargoed oil

A COLD SPRING HAS FUTURES SIZZLING

By early April, Jeffrey Heil is usually riding high aboard a tractor, applying fertilizer and planting the first corn on his central Iowa farm. But this April, Heil and his tractor stand idle as frost glistens across the 800-acre spread. "Basically, nothing is done," he gripes.

With grain prices hitting record highs, Midwest farmers can hardly wait to get rolling. But Mother Nature already is threatening to spoil the party. Dry, frigid conditions have delayed the start of spring planting across the Midwest. There's still plenty of time to get the crop in the ground, but commodity traders are made jittery by even a hint of weather worries. And with good reason: Supplies are tighter than they have been in decades (chart). "It's the first time in a lot of lifetimes that we're seeing a sharply reduced supply of grain," Heil says. Experts figure it would take two bumper crops in a row to bring supplies back up to normal.

SLOW THAW: *Heil can't plant yet, and a dry spell may loom*

BIG JUMP. As a shortage looms, grain futures have soared like Internet IPOs. At the Chicago Board of Trade, corn futures closed at $4.44 per bushel on Apr. 10, after setting records in four recent sessions. During the past year, the price of corn has jumped 80%. Soybeans hit a seven-year high of $7.94 per bushel on Apr. 10. Wheat prices have risen, too, after a disastrous winter crop. Meanwhile, demand is booming in all quarters, especially in Asia, where China is now a key buyer of U.S. commodities.

The latest price surge was touched off by a Mar. 29 government report that pegged corn stockpiles at 3.8 billion bushels, below previous estimates. That's a meager supply, and it shows that demand has continued to grow in spite of higher prices. The big worry: that stocks won't fill the gap until the new harvest comes in. "If we continue at this rate unabated, we will run out of corn," says Richard J. Feltes, director of commodity research at Refco Inc.

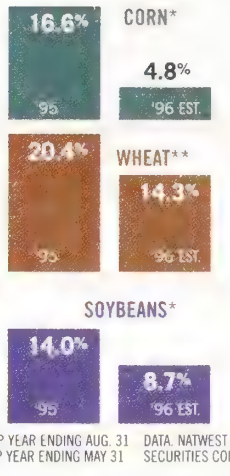
Corn is the U.S.'s biggest cash crop but, much as farmers relish strong demand, they're planting less of it than analysts expected. As of Mar. 29, some 79.9 million acres were earmarked for corn—much more than last year, but nearly 2 million acres below bullish estimates. Farmers are switching some acreage to soybeans because they think corn prices could fall six months from now as the new crop comes in and eases today's acute shortage. The corn futures market reflects that bet: The price of corn for December delivery—which tracks the coming crop—is nearly $1 per bushel below the price of May contracts.

One reason: Market forces could intervene to ease the shortage. For instance, today's high corn prices could force some meat producers to slaughter their herds and flocks, lowering demand for feed grains by the fall. Other forms of rationing have started already: Archer Danie Midland Co., among others, is cutting production of fuel-grade ethanol, which is made from corn. "Every few years, Mother Nature doesn't treat us too kindly," explains ADM Chairman Dwayne O. Andrea

EMPTIER BINS

U.S. grain supplies at season's end are expected to be at their tightest in decades

RESERVES AS A SHARE OF ANNUAL CONSUMPTION



*CROP YEAR ENDING AUG. 31
**CROP YEAR ENDING MAY 31
DATA: NATWEST SECURITIES CORP

DROUGHT? Mother Nature could have worse in store, however. Besides cold weather, which delays planting because seed won't germinate in chilly soil, the grain belt could be facing a drought. A dry weather pattern "is firmly in place," say meteorologist Jon B Davis of Smith Barney Inc. He expects little rainfall into June. Dry condition could be a blessing early on, by speeding along planting. But a summer drought would be devastating, especially after a parched winter. "I haven't had a good rain since last May," moans Vic Riddle, who farms near Wapella, Illinois. Another worry: Gray leaf spot, a debilitating disease, could hit the corn crop again, after cutting into yields last year.

During the next few weeks, farmers will decide how to divide their land between corn and soybeans. The 1995 Farm Bill has done away with government set-aside programs that idled land, so they have new freedom to make those decisions. For now, Heil is betting on soybeans, which tolerate drought better than corn. "I'm gambling because I sort of have a feeling of a dry year," he notes. Such feelings will keep the commodity markets on edge for weeks to come.

By Greg Burns in Chicago

CALIFORNIA IS BUSTING OUT ALL OVER

nd the economic surge could boost Clinton's chances

he intersection of old and new California takes place in a onetime hangar the edge of Burbank's airort. There, workers are in e midst of a $45 million enovation of the gray, cavnous building where Lockeed Corp. once developed oy planes and the stealth ghter. Trading the cold war r cartoons, the building oon will house hundreds of nimators working for Walt isney Co.

After riots, earthquakes, oods, and the loss of more an 250,000 jobs during the arly '90s, California is lookg sunny again. Defense layffs have slowed. And while e boom years of the '80s re just a memory, enough ew jobs are being added in ntertainment, retail, and ew technologies to once gain propel the Golden State own a faster growth path an the rest of the nation. uring the next three years, e state will create nearly 1 illion new jobs, says a reent study by the UCLA Busiess Forecast. Unemployment, which it a high of 9.2% in 1993, will drop to .1% by 1997, figures Bank of America hart).

ACTION
Walt Disney's Burbank animators will be joined by hundreds of new hires as soon as an old Lockheed plant is fully renovated

RECIOUS CHUNK. No one is cheering uder for California's revival than Present Clinton. The state had gone Reublican in six straight Presidential elecions before Clinton captured its 54 lectoral votes in 1992. California's ecoomic revival increases the President's rospects of taking its electoral votes gain—20% of the total he'll need to eturn to the White House in one fell woop.

The situation is similar to Ronald Reagan's reelection in 1984, says Mark . DiCamillo, director of the statewide Field Poll. Then, as now, the numbers of Californians feeling better about their fiancial situation was up. In the most ecent Field Poll, taken in late March, Clinton led Senator Bob Dole (R-Kan.) 5% to 39%, with 6% undecided. "It's till the economy, stupid," says Sherry Bebitch Jeffe, a policy analyst at the Claremont Graduate School. "The economy drives the perception that Bill Clinton's first term was successful."

California's success is most evident in entertainment and technology. Online services and other aspects of the Digital Era are driving job growth in both Silicon Valley and Hollywood. High-tech companies Hewlett-Packard Co. and Intel Corp. are hiring workers. In Hollywood, Digital Domain, the three-year-old special-effects company started by movie director James Cameron, will nearly double its 300-person payroll during the next two years as the company expands its interactive-game business. DreamWorks SKG, the studio started by moguls Steven Spielberg, Jeffrey Katzenberg, and David Geffen, has signed on 650 people in 16 months and is still hiring. And the 1,000-acre studio and residential complex DreamWorks is planning west of Los Angeles will add an estimated 32,000 jobs by 2001.

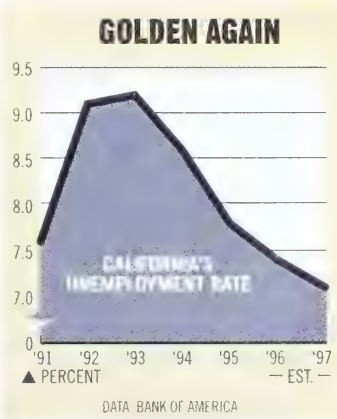
Elsewhere, renewed consumer confidence has major retailers such as Home Depot Inc. and Wal-Mart Stores Inc. planning new California stores, while Universal Studios and Disney are thinking about expanding their theme parks. Home sales are up 40% from last year's depressed numbers. Consolidation in the banking industry has kept office vacancy rates high, but the industrial and commercial sectors are getting tight in some markets. In Valencia, north of Los Angeles, for instance, Newhall Land & Farming Co. has commitments for 71% of the retail space in a shopping mall it just began building.

GOP BLITZ. President Clinton, who has visited the state 28 times in the past year, has helped the rebound by spending federal dollars on earthquake relief, transportation projects, and even defense programs. McDonnell Douglas Corp. plans to add 3,000 to 5,000 jobs at its Long Beach plants if Congress approves the Clinton Administration's plan to spend $16.9 billion to buy 80 additional C-17 transport planes.

Still, says state Republican Party Chairman John Herrington: "Parading up and down the state getting his picture taken in front of airplanes isn't going to get him reelected." Herrington says the GOP will bombard the state with TV ads pointing to job losses after Clinton-ordered defense cuts. And he's skeptical of current polls. Herrington notes that in an early Field Poll in 1980, Ronald Reagan and Jimmy Carter were in a dead heat. Yet Reagan ended up blitzing Carter by almost 20 points.

Of course, a lot may change by Election Day this time around, too. Dole, for instance, could name Daniel E. Lungren, California's attorney general, as his running mate, buttressing his image in the state. But a healthy economy bodes well for the incumbent. And in the state that Bill Clinton needs to win reelection, prospects are looking pretty darned bright.

By Ronald Grover in Los Angeles, with Linda Himelstein in San Francisco



PEOPLE

FROM SENATOR POTHOLE TO SENATOR KINGMAKER

New York power and Dole pal D'Amato is riding high. Too high?

For years, friend and foe alike labored to pin a label on the phenomenon that is Alfonse M. D'Amato. New York Democrats who watched his rise from the Nassau County Republican machine to the U.S. Senate scoffed at the home-state chauvinism of the self-described Senator Pothole. Rivals who watched him amass power in Albany dubbed him "The Emperor of New York." And Capitol Hill Democrats who have squirmed under D'Amato's relentless inquiry into the Whitewater affair have described him as Bob Dole's "hatchet man." Now, thanks to his insatiable drive for upward mobility and his close ties to Dole's Presidential campaign, a new tag is being pinned on D'Amato: kingmaker.

It is not a description D'Amato discourages. These days, the brash junior Senator from New York acts as if he has just hit the trifecta of American politics. And in a way, he has—as chairman of the Senate Banking Committee and the National Republican Senatorial Committee, leader of the Whitewater hearings bedeviling Bill and Hillary Rodham Clinton, the power behind his home state's governor, and a key ally to the likely GOP Presidential nominee. "He may not be Boss Tweed, but Al D'Amato is setting the agenda for the Republican Party," says Ashby G. Hilsman, the Democratic Leadership Council's New York chairman. Crows Richard H. Collins, a D'Amato fund-raiser: "Alfonse is the King of New York, and he's the most powerful senator in Washington besides Bob Dole."

THUMBS DOWN. Still, critics say D'Amato is stretched so thin—and has become so identified with hard-line GOP policies that are out of sync with New York—that his empire could collapse. Indeed, supporters and detractors question whether D'Amato can manage the balancing act he has created. "He's digging his own political grave," insists Democratic pollster Mark Mellman.

At this moment, New Yorkers do not love Al D'Amato. State voters gave D'Amato a dismal 68%-negative rating in a Mar. 20-21 poll by Marist Institute for Public Opinion. Some 56% of Republicans and 69% of independents turned thumbs down. The reason: "He has switched from being Senator Pothole to Senator Politics, and he has alienated some of his base," says poll director Lee M. Miringoff.

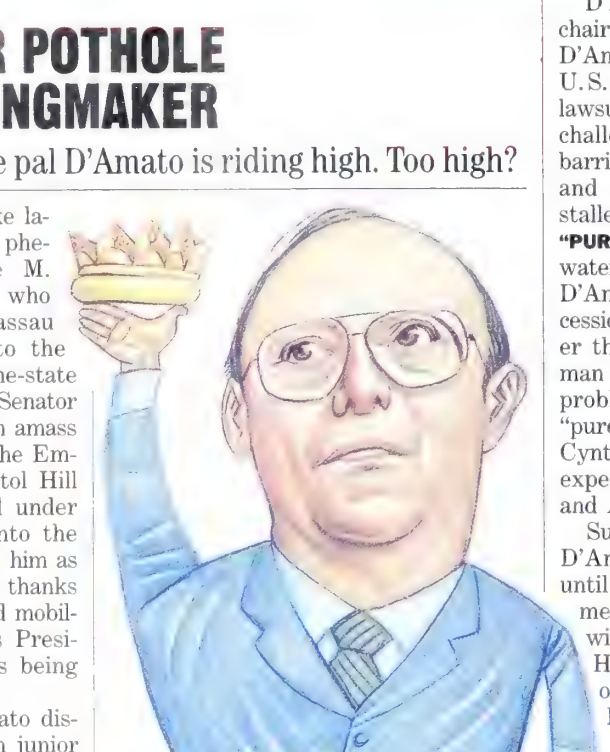
Take D'Amato's role as Dole's campaign chairman, which angered some Republicans. Onetime White House hopeful Steve Forbes labeled him "Commissar D'Amato" for trying to keep Dole's rivals, including Forbes, off the New York primary ballot. Forbes was "absolutely justified at being annoyed," D'Amato now admits. "I was wrong." But the primary is long over, a Forbes was trounced.

D'Amato faces tougher obstacles chairman of the Banking Committee. D'Amato-backed bill designed to shi U.S. securities firms from sharehol lawsuits is now law. But the panel's challenge—a proposal to knock do barriers among the banking, insuran and securities industries—rema stalled.

"PURE BUFFOONERY." As for Whi water, while many Republicans love D'Amato committee's grilling of a s cession of Clintonites, Democrats cons er the probe a pre-election stunt b man who has had his share of eth problems. The Whitewater inquiry "pure buffoonery," says Representat Cynthia A. McKinney (D-Ga.). "Peo expect the worst from their politicia and Al D'Amato gives it to them."

Such criticism doesn't seem to f D'Amato, who isn't up for reelect until 1998 and figures he has time mend fences—and patch pothole with a dollop of pork-barrel goodi He dismisses critics' carping as "p of the price you pay to do the jo Indeed, D'Amato now says it is my mind" to try again for the S ate. "I want to be a senator fr New York for many years come," he says. Republicans w skeptics not to count D'Amato "The road to political success strewn with the corpses of peo who have underestimated D'Amato," says a lobbyist.

How does he do it? "He's pedestal of perfection, but D'Amato is New York," s one ally. "He's tough. H brash. He's aggressiv



BALANCING ACT: Banking chair, chief Whitewater pest, top New York pol, and maybe key to the Presidency

Some Republicans privately fret t D'Amato has overstayed his welco but the incumbent is characteristic bold. "If I run, I'll win. It's that s ple," he says.

And if his pal Bob Dole wins White House in November? The run mill has D'Amato getting first shot a number of plum jobs, including Treas Secretary, but he says flatly he's interested. "Treasury? You've got to kidding," says a grinning top GOP lob ist. "D'Amato's job will be the one has now: kingmaker." It's a descript D'Amato hopes will stick.

By Richard S. Dunham in Washing

DUBROVNIK DISASTER: *The plane that carried Brown and Parsons' Pieroni*

UCCESSIONS

A DEATH IN THE PARSONS FAMILY

low it handled the loss of its CEO on the Ron Brown mission

arsons President Thomas L. Langford knew something was amiss on Apr. 3 when the door that connects s office to that of chairman and CEO eonard J. Pieroni suddenly opened. he unannounced visitor was June hute, Pieroni's assistant, clutching a ortable radio. Together, they listened to e first news flashes: Commerce Sectary Ronald H. Brown's military plane as missing in the Balkans. Pieroni was art of the delegation.

As the horrible news filtered slowly t of Croatia, boards and employees more than a dozen companies across e U.S. were forced to grapple with orupt and traumatic change at or near e top. Many had no clear succession lans in place. Some still are in a state f turmoil. A week after the disaster, arsons Corp., which offered BUSINESS EEK an inside look at how one company coped with a crisis of management nd morale, is moving on.

STATE OF SHOCK." As initial reports f the disaster raced through the giant ngineering and construction company's asadena (Calif.) headquarters, work round to a standstill. "It was unbeevably quiet," says Jan Van Willigen, usiness development manager in the arsons unit that builds oil refineries nd gas pipelines. "People were in a tate of shock." Within minutes, Langord was on the phone to Hawaii, trying reach Pieroni's vacationing family. By noon, he had tracked down the company's five outside directors and scheduled a board meeting in Pasadena for 24 hours later.

By the time the board of the 52-year-old company met, it knew definitively that it faced the task of replacing its top executive. Pieroni was on the trip because his $1.6 billion company counts large-scale infrastructure projects, such as rebuilding bridges, among its specialties.

DULY ELECTED
Following set procedures, the Parsons board met and quickly tapped McNulty (above) to take the reins from acting chief Langford

The meeting would be interrupted once, by a PA system announcement asking the company's 2,000 headquarters employees to observe a moment of silence in memory of their CEO. Meanwhile, the dozen or so flags that customarily fly in the Parsons courtyard, signifying the countries in which the company is doing business, had been replaced by the Stars and Stripes at half mast. And a portrait of Pieroni was hung near the employees' entrance, with a spray of flowers in front.

The board didn't have to name an interim chief. The employee-owned company's by-laws specify that the president has all the duties and responsibilities of the CEO in his absence. And they spell out the procedure that provides for succession: The board's executive committee, in this case all of the directors except Langford, meet to name a new CEO.

As the crisis wore on, business got back to normal. "The legacy that Len would have wanted to be known for is that it's time to get on with our work," says Langford. The family underscored that on Apr. 8, when Pieroni's son, a mechanical engineer at Parsons, delivered a written message that Langford issued as a statement to the company's 10,000 employees worldwide. It thanked them for hundreds of phone calls and letters and exhorted them to help fulfill the elder Pieroni's vision "to make Parsons the world's premier engineering/construction company."

EASING THE CRISIS. Pieroni's goal was to vastly expand Parsons' business outside of the U.S., which now accounts for only 30% of revenues. To do so, he instituted in January a reorganization consolidating Parsons' collection of companies into four business units: transportation, electric power, refining and chemical processing, and infrastructure. He also set up a regional organization to coordinate Parsons business around the world.

The process of implementing those changes has helped ease managers through the crisis, Langford figures. "It's recent enough that the process is still fresh in everyone's minds, and everyone is still enthused about the new direction we're going," he says.

Certainly Parsons can still work fast. Late in the afternoon on Apr. 9, the board announced the results of its deliberations and named James F. McNulty, 54, as the company's new CEO. Langford remains as president, and retired President Ray W. Judson will return to serve as chairman.

For McNulty, a West Point graduate who headed Parsons' infrastructure unit, the appointment was a complete surprise. But the direction he intends to take the company is not: "My plans are to make Parsons into a big player in the global marketplace." It's a mission that Len Pieroni endorsed with his life.

By Larry Armstrong in Pasadena

CONSTANT CRISIS: *Erickson startled colleagues when he left Reno Air for TWA in 19*

AIRLINES

UP, UP, AND AWAY —AGAIN

TWA is cutting debt, hiring workers, and even showing a profit

In his first 24 months as chief executive of Trans World Airlines Inc., Jeffrey H. Erickson regularly spent 18-hour days rushing from one crisis to another. When he wasn't engaged in hardball negotiations with former TWA owner Carl C. Icahn, who remained a major lender, he was imploring creditors to exchange debt for equity.

Erickson, 51, won those battles. But he was still edgy in March, when TWA issued stock for the first time in a decade. After all, TWA's demise had been predicted for years.

NEW JETS. He needn't have worried. The 8% preferred shares were gobbled up, raising $169 million that TWA can use to pay off debt with a 12% coupon. "As the marketplace becomes more aware of our story, it creates a lot of excitement," says the low-key Erickson, a former aeronautical engineer who in [illegible] led colleagues by leaving Reno [illegible] which he helped start, for TWA. [illegible] TWA is the industry's biggest comeback kid. "I firmly thought they were done for two years ago," says Michael Boyd, president of Aviation Systems Research, a consultant. "But now, it looks like they're out of the woods."

On Apr. 10, the St. Louis carrier's common stock was trading at 23¾, up from 4⅝ after it emerged from bankruptcy in 1995. It posted a 1995 operating profit of $25 million, its first since 1989. S.G. Warburg estimates TWA will report a loss of $68.9 million in the seasonally weak first quarter. But that's an improvement over 1995's first-quarter loss of $122.8 million. The airline is hiring 780 flight attendants, 300 pilots, and 1,300 reservation agents. And it has ordered 10 new Boeing 757-200s and leased 10 more.

The gains have come at a cost. Erickson arrived just after TWA closed its mini-hub in Atlanta. He went on to shutter TWA's commuter subsidiary, Trans World Express, and dump flights to several European cities. Debt holders suffered a $500 million cut in the value of their holdings.

Employees also paid a price. They had already given up $660 million in wage concessions in 1993, b[illegible] under Erickson they agreed [illegible] well to forgo a "snapback" p[illegible] vision that would have restor[illegible] their previous wage levels [illegible] 1995. Also in the 1995 restr[illegible] turing, they saw their equ[illegible] stake in the company chopp[illegible] to 30%, down from 45%. Tod[illegible] though, with TWA's stock so[illegible] ing, no one is complainin[illegible] "We're breathing easier, bo[illegible] as employees and investor[illegible] says Don Jacobs, head of TW[illegible] pilots union.

HALCYON DAYS. Certainly, T[illegible] is benefiting heavily from t[illegible] current favorable environme[illegible] for airlines. United, Americ[illegible] and Continental all post[illegible] record operating profits l[illegible] year. And some of TWA's fie[illegible] est rivals are focusing elsewhere. [illegible] trenchment by American Airlines I[illegible] and Delta Air Lines Inc. has given T[illegible] breathing room. And Southwest A[illegible] lines Co. is busily expanding in Flori[illegible] not a big TWA market.

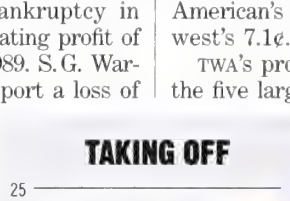
With its restructuring behind it, T[illegible] can compete better even where big [illegible] vals do remain. Erickson says that [illegible] the 15 routes where TWA goes head-[illegible] head with Southwest, TWA is maki[illegible] money because of its reduced cos[illegible] which dropped to 8.28¢ per availa[illegible] seat mile—lower than United's 8.5¢ a[illegible] American's 8.43¢ but higher than Sou[illegible] west's 7.1¢.

TWA's productivity still trails those [illegible] the five largest carriers. Its on-time p[illegible] formance lags behi[illegible] the industry. And [illegible] debt levels remain hi[illegible] Ray Neidl, a Furm[illegible] Selz analyst, says th[illegible] while airlines' curre[illegible] good times may w[illegible] give TWA time to get [illegible] house fully in order, [illegible] problems are "by [illegible] means solved." Echo[illegible] Southwest Chief Fina[illegible] cial Officer Gary C. K[illegible] ly: "Any airline th[illegible] doesn't have its costs, service, and b[illegible] ance sheet in order could be in troub[illegible] when the economy weakens."

That may be. But even then, T[illegible] will have a leg up on its rivals: It's be[illegible] through the fire several times alread[illegible]

By Susan Chandler in Chicago, w[illegible] bureau reports

TAKING OFF



DATA: BLOOMBERG FINANCIAL MARKETS

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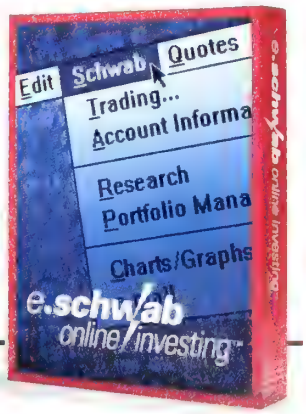

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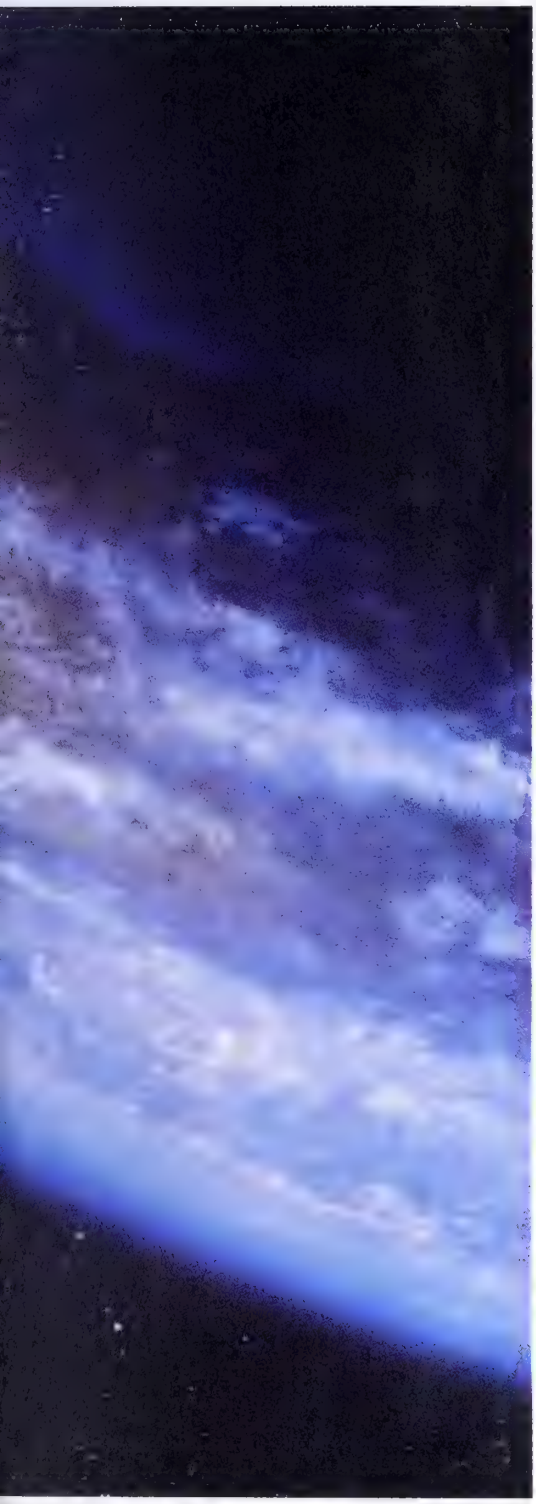

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LESSON PLAN FROM CHICAGO'S SCHOOLS

A financial overhaul offers clues for strapped city systems

For a primer on waste and abuse, consider a few pages of horror from the Chicago public school system, the nation's third largest. Administrators recently discovered a school guard charging students to use rest rooms. For decades, the board maintained hundreds of full-time tradesmen such as shademakers and cabinetmakers—quaint, but ridiculously expensive. As for role models, the immediate past president of the school board, D. Sharon Grant, began serving a 21-month prison term on Apr. 2 for years of tax evasion.

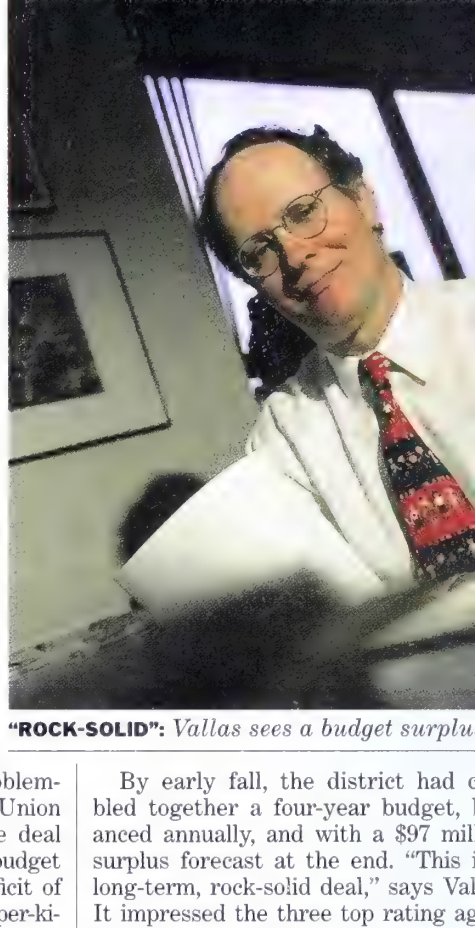
Little wonder the 413,000-student citywide district has been a chronic underachiever, and its financial condition feebly propped up for nearly two decades like so many of the city's deteriorating school buildings. Yet just as there is hope for even the most wayward student, Chicago's school system is on the cusp of a dramatic rehabilitation—at least financially. By mid-April, school officials plan to tap the public debt markets for up to $400 million in general obligation bonds as part of a five-year, $806 million capital-spending program to fix old schools and build new ones. It's the first time the schools have had access to the markets without help from city or state bodies since 1978.

NEW POWER. The Chicago schools' financial reconstruction owes much to state legislation, which went into effect last July, and may provide a useful syllabus for other struggling urban districts. In short, the Republican-controlled legislature, fed up with what they regarded as special pleadings for schools in Democratic Chicago, dumped responsibility for education squarely in the lap of Mayor Richard M. Daley.

The mayor leaped at the opportunity. Armed with sweeping new powers, Daley was able to appoint his own board, which has extraordinary authority: Strikes are prohibited through the 1996-97 school year, and key work rules, such as hiring and firing rights, are no longer subject to collective bargaining. "Very few mayors have this authority, and most would love to," says Jeanne Allen, president of the Center for Education Reform.

Daley quickly moved more than three dozen senior aides from city hall into school board headquarters and replaced the 15-member board with his own five-member body. As chief executive officer of the schools, Daley appointed Paul G. Vallas, the city's former budget director and a trusted former aide.

Within six weeks after taking over, the new team reached an unprecedented four-year contract with the teachers' union. "We've moved from confrontation to problem-solving," says Chicago Teachers Union President Thomas H. Reece. The deal helped promote a comprehensive budget package. Facing a cumulative deficit of $1.3 billion over four years, the hyper-kinetic Vallas, who speaks with the flat twang of his native South Side, hacked away at bloated payrolls. Officials shaved some 1,200 maintenance and service jobs, saving more than $35 million a year. "The mayor told us to do whatever is necessary to get the job done," insists Vallas.



"ROCK-SOLID": *Vallas sees a budget surplu*

By early fall, the district had c bled together a four-year budget, l anced annually, and with a $97 mil surplus forecast at the end. "This i long-term, rock-solid deal," says Val It impressed the three top rating ag cies—Standard & Poor's, Moody's, Fitch—which proceeded to raise system's rating to investment gra "Daley is astute enough to realize t to keep the population from leaving city, he needs to fix the schools," s Steven J. Murphy, director of the pu finance group at Standard & Po Corp.

There are still some sk tics. Says Dion Miller Pe an organizer for the Cityw Coalition for School Refo "They still have to prove t can boost student achie ment without laying waste schools, principals, and lo [school governance] counci

The new board is now ting tough new standards students and teachers. T will test the new boar mettle at least as much putting its finances in ord While the overall grade Incomplete, the board's nancial performance rate strong Pass.

By Richard A. Melc in Chic

CHICAGO HOPE

How the school system repaired itself enough to tap the bond market for the first time on its own since 1978

LEGISLATION Illinois legislature turns control of the third-largest U.S. school district over to Mayor Richard Daley, gives him sweeping powers

MANAGEMENT Daley installs new school board and team led by former City Hall finance heavyweights

BUDGET Closes $1.3 billion deficit over four years and now projects balanced budgets due to cost-cutting

LABOR CONTRACT Signs unprecedented four-year contract with teachers' union, gaining wide sway over such issues as class size and work rules

FINANCING Aims to raise $300 million to $400 million in public markets in April for capital improvements

DATA: BUSINESS WEEK

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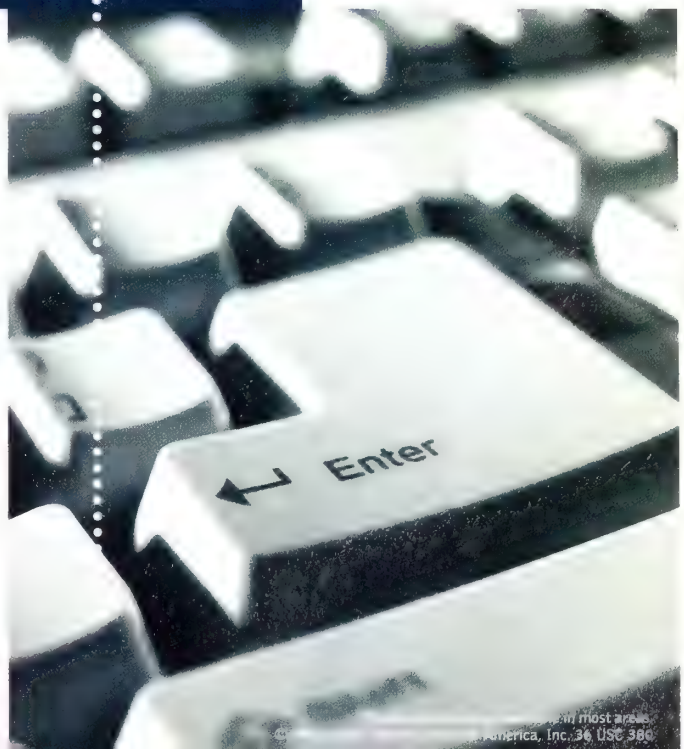

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DRUGS

THALIDOMIDE. IT'S BACK

Can marketers position it as an AIDS and cancer treatment?

As far as image goes, thalidomide ranks roughly down there with salmonella and Satan. The drug, used to treat morning sickness and as a sleeping pill in the early 1960s, caused 10,000 babies around the world to be born with flippers in place of limbs, and with bones that float around their bodies. Thirty years later, people hear the word and still think of the worst pharmaceutical disaster ever.

Now, drug manufacturers large and small are hoping to perform the ultimate brand repositioning. In recent months, the industry has ratcheted up the pace of thalidomide development for new uses. Bristol-Myers Squibb Co. announced on Apr. 3 that it is launching thalidomide trials on cancer patients with the National Cancer Institute to evaluate the drug's effectiveness in limiting tumor growth. Andrulis Pharmaceuticals Corp. has reported tests that show the drug cures painful oral ulcers in AIDS patients. And tiny Celgene Corp. last month began selling thalidomide at cost to AIDS patients who didn't qualify for clinical trials. Yes, executives say, thalidomide causes horrific birth defects. But it may be able to fight some of the world's deadliest diseases.

MOVING MOUNTAINS. To present thalidomide once again as a wonder drug, though, could be like moving mountains. "From a marketing standpoint, I don't think it gets any tougher than this," says Paul J. Kelly, principal at Silvermine Consulting Group, a Westport (Conn.) firm that works with drug companies. "Those images of thalidomide babies are still pretty fresh in everybody's minds."

[illegible] how Celgene is marketing the drug to eligible AIDS patients. Right up front, it's emphasizing the downsides to thalidomide, hoping to confront them directly and persuade patients to be careful, but not to overlook the drug.

The 16-page pamphlet Celgene distributes looks like something the drug's opponents might produce. Emblazoned in red with "Thalidomide" at the top of the cover sheet, it even uses a photo of a thalidomide baby to warn of the drug's dangers. The explanation of how the drug treats AIDS-related weight loss is left for the back pages. "Usually drug companies try to downplay the negatives," says Sol J. Barer, president [illegible] Celgene. "This is the opposite."

Bristol-Myers Squibb isn't as [illegible] along with thalidomide. But, says [illegible] Slichenmyer, the company's director [illegible] clinical cancer research, marketing [illegible] drug "ought to inspire some sort of [illegible] traordinary precaution." Possibilities [illegible] clude individually wrapped pills and [illegible] warning label on birth defects.

LOUD WARNING. Certainly, ma[illegible] drugs can cause birth defec[illegible] "Thalidomide is notorious, but [illegible] is not unique," says Robert [illegible] D'Amato, a doctor at Harva[illegible] University Medical School w[illegible] is researching the drug. It cou[illegible] however, elicit a visceral re[illegible] tion from any patient. And leg[illegible] ly, experts say, a loud and s[illegible] cific warning is essenti[illegible] because a jury could react [illegible] kind. A warning such as C[illegible] gene's could limit liability, sa[illegible] Stanford University Law Sch[illegible] torts professor Marc A. Frankl[illegible] if it "is in the right place, [illegible] the right prominence, the rig[illegible] size, and the right intensity."

That's good, because th[illegible] sands of people need the rel[illegible] thalidomide may promise. F[illegible] searchers say the drug wor[illegible] in two ways. First, it inhib[illegible] the growth of blood vesse[illegible] That's probably why fetuses [illegible] posed to thalidomide could [illegible] grow limbs. But that proper[illegible] may also enable thalidomide [illegible] starve cancer tumors or preve[illegible] blindness caused by ves[illegible] growth in the eyes. In additi[illegible] the drug may halt overprodu[illegible] tion of a protein that can cau[illegible] rapid weight loss among A[illegible] and cancer sufferers. If te[illegible] continue to be promising, t[illegible] companies will request Food [illegible] Drug Administration appro[illegible] this year.

Because the FDA never a[illegible] proved thalidomide in the '6[illegible] Americans were spared mu[illegible] harm. But the drug was wide[illegible] used in Canada, South Ame[illegible] ca, and Europe. In Brazil, where it co[illegible] tinues to be taken to treat lepro[illegible] thalidomide victims are still being bo[illegible]

Brazil's experience shows that thalid[illegible] mide's ability to alleviate symptoms [illegible] some incurable diseases can obscure [illegible] power to maim. So despite its promi[illegible] even thalidomide's makers seem inte[illegible] on maintaining at least part of its b[illegible] name.

By David Leonhardt in New Yo[illegible]

ONGOING SCOURGE: *A recent victim in Brazil*

A Drug in Rehab

Thalidomide is hazardous to fetuses but could be useful in treating a number of diseases

AIDS, CANCER, RHEUMATOID ARTHRITIS, TUBERCULOSIS Thalidomide may halt overproduction of a protein, TNF-alpha, that can contribute to the rapid weight loss and fevers associated with these diseases.

AIDS TNF-alpha tells HIV to begin copying itself, so by limiting growth of TNF-alpha, thalidomide may slow the spread of HIV and eliminate the oral ulcers caused by AIDS.

CANCER AND DIABETES–RELATED BLINDNESS Because thalidomide appears to slow the growth of blood vessels, it may retard the growth of tumors and of vision-impairing vessels behind the eye.

DATA: BUSINESS WEEK

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perts agree: Windows 95 and Windows NT nand uninterrupted power by APC

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lti-tasking operating systems like Windows d Windows NT Workstation let you open anipulate multiple files and applications at me time. That's why, unfortunately, as *PC zine* says "When Windows 95 does crash, orrible mess..."

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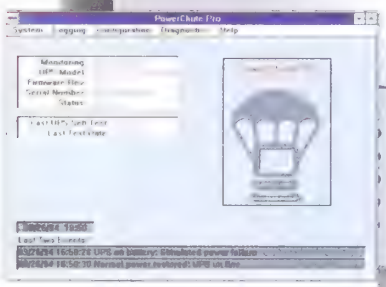

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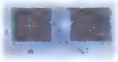

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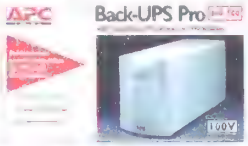

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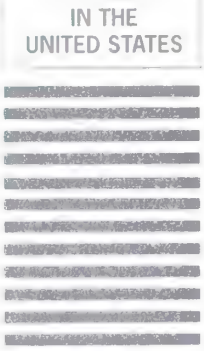

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COMMENTARY

By Joan O'C. Hamilton

MEASURING BIOTECH BY PATENTS IS PATENTLY ABSURD

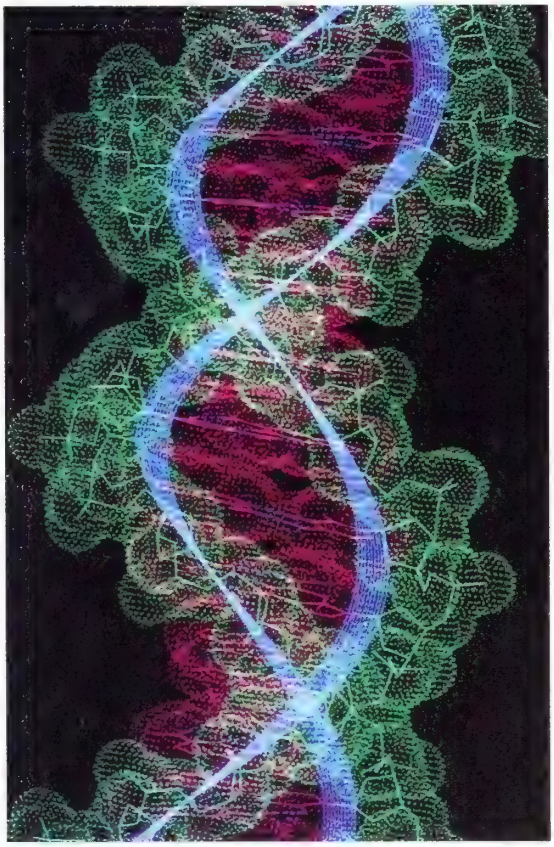
here's a peculiar phenomenon that plagues biotechnology from time to time: the cloning of eaningless statistics.

With well over 1,000 companies ckeying for position and funding, nalysts scramble to come up with recise-sounding rationales on which base stock picks for concerns that on't post profits for years. ompanies try to claim superiity over rivals because they ave fancier equipment or ore PhDs on staff. Relying on ich tangential indicators is a de effect of dealing with a 20-ear-old industry in which the ilk of products remain stubornly in the future. Now, an ticle in a scientific journal onfounds the picture yet gain.

In a commentary in the Apr. edition of the British journal *ature*, authors from the Uniersity of Sussex claimed to ave completed a "comprehenve analysis of patented huan DNA sequences." They ound that three-quarters of e 1,175 patents awarded in e U.S., Europe, and Japan etween 1981 and 1995 have one to the private sector. bout half of those, the study alculated, went to Japanese ompanies. Further underscorg the notion that the Japanse are cornering the market n the human genome is a anking of the 13 companies ith the most patents. The list is opped by Japan's Takeda Chemical ndustries Ltd. with 63 patents. Six ther Japanese operations are in the roup. Just four are American, the ther two Swiss.

ANY ANOMALIES. The list, however, ainly shows why such calculations f quantity rather than quality are orthless. For example, Amgen, the orld's most successful gene-splicing ompany, with 1995 earnings of $538 illion on sales of $1.9 billion, didn't ven make the *Nature* rankings. By ontrast, list-leading Takeda, though strong research company, has not eveloped any gene-related drugs. ther anomalies: Genentech Inc. is anked No.2 and the U.S.'s trongest patent holder, with 41 granted. In fact, that company is now majority-owned by Swiss drug giant Roche Holdings. Cetus Corp., which is ranked as another top U.S. entry at No.9, was broken up and sold several years ago.

But any implication that the U.S. is lagging in biotech is wrong. In the early 1980s, Congress worried that Japan was gearing up to take over world biotech, the way it conquered electronics. Despite billions in Japanese investments, it never happened. "We didn't weigh heavily enough the lack of good, basic science in Japan," notes Susan K. Clymer, a Japanese biotech expert and the managing director of consulting firm NichiBei Bio.



Parallels between biotech and other industries also can be misleading. In electronics, for instance, Japanese companies succeeded partly by filing many patents of fairly narrow scope. Even if they didn't innovate, the companies tweaked established processes and inventions and were able to broker their intellectual property in dealmaking.

Compared with electronics, however, biotechnology is mired in molasses. The technology moves quickly, but the mysteries of the human body constantly thwart rational-sounding plans for new agents. A drug may not hit the market for a decade or more after its discovery, with the clock on patents ticking all the while. Perhaps even more significant, incremental manufacturing advances and other small steps are virtually irrelevant in biotech. Once a drug enters the regulatory testing phase, it cannot be changed in any way, including its manufacturing process, because that could influence its safety or effectiveness. It's a good bet that most of the patents on the *Nature* list never resulted in products at all.

A more significant competitiveness issue is the degree to which European drug houses have artfully formed partnerships with—or, in some cases, bought into the best of—American biotech companies. Take Roche's purchase of most of Genentech, Britain's SmithKline Beecham's closely aligning with sequencing powerhouse Human Genome Sciences, and Ciba-Geigy's majority stake in Chiron.

HUMAN DNA SEQUENCE

Japan's Takeda sits atop the *Nature* list of patent holders but hasn't developed any gene-related drugs

Just adding up the number of patents drugmakers hold is like handicapping the National Football League by simply listing the height and weight of the players. As in football, factors such as experience, skill, luck, and performance over time are the hallmarks of a biotech winner. The only tally that counts is who makes and sells the most important products.

Hamilton tracks biotech from San Francisco.

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TED BY KELLEY HOLLAND

ENDER PROBLEM MITSUBISHI

EQUAL EMPLOYMENT ortunity Commission is ing the brakes on a Mitshi unit. On Apr. 9, the c charged that Mitsubishi or Mfg. of America has iminated against as many 00 women since 1990 by nitting sexual harassment, liation, and forced resigons at its facility in Nor- Ill. "Our position is that wing harassment] was of standard operating edure," says John Henkson, the EEOC regional atey in Chicago. The federal n follows a sexual harasst class action filed on beof women in the plant in . Under the 1964 Civil ts Act, each plaintiff could be awarded up to $300,000, possibly leading to the largest judgment ever for sexual harassment. Mitsubishi denies any wrongdoing.

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ET CETERA . . .

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- Luckily for Fidelity, Clinton is aiming to induce more businesses to set up 401(k)s.
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CLOSING BELL

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PR. 1, '96 APR. 9
DATA BLOOMBERG FINANCIAL MARKETS

HEADLINER: FRANK BIONDI

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EDITED BY KELLEY HOLLAND

A GENDER PROBLEM AT MITSUBISHI

THE EQUAL EMPLOYMENT Opportunity Commission is putting the brakes on a Mitsubishi unit. On Apr. 9, the EEOC charged that Mitsubishi Motor Mfg. of America has discriminated against as many as 700 women since 1990 by permitting sexual harassment, retaliation, and forced resignations at its facility in Normal, Ill. "Our position is that [allowing harassment] was part of standard operating procedure," says John Hendrickson, the EEOC regional attorney in Chicago. The federal action follows a sexual harassment class action filed on behalf of women in the plant in 1994. Under the 1964 Civil Rights Act, each plaintiff could be awarded up to $300,000, possibly leading to the largest judgment ever for sexual harassment. Mitsubishi denies any wrongdoing.

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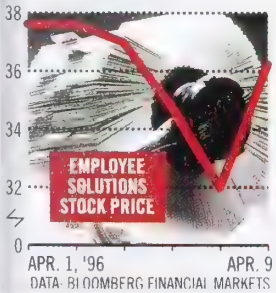

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By Elizabeth Lesly

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TRADE

DOING BUSINESS WITH STRONGMEN

Arguments over the right tack to take are heating up

American companies expanding in some emerging Asian markets are caught in mounting political fights at home. Here are examinations of the struggles over doing business with China and Burma.

THE NEW CHINA LOBBY: BOEING, MOTOROLA . . .

The news from China goes from bad to worse. Just this year, there have been revelations about children left to die in Chinese orphanages, sales of Chinese nuclear technology to Pakistan, new threats to Hong Kong's freely elected legislature—and, of course, Beijing's attempts to intimidate Taiwanese voters with missile tests and military exercises. No wonder a congressional coalition is working hard to kill China's most-favored-nation (MFN) trade status when it comes up for renewal later this spring.

As Beijing's image gets uglier, multinationals such as Boeing, Motorola, Caterpillar, AlliedSignal, and American International Group (AIG) are stepping in to help. They don't want their investments or sales held hostage should China retaliate against the U. S. And they fret that a breakdown in relations could destabilize all Asia. To persuade decision makers to give China another chance, the Washington representatives of about a dozen companies earlier this year quietly launched a project called the China Normalization Initiative.

The goal is not just to preserve MFN for another year. The companies want to change the terms of the debate. While President Clinton "delinked" trade and human rights in 1994, companies argue the U. S. should delink trade from other political issues such as Taiwan or nuclear proliferation as well. They also want to change U. S. law so that China can have MFN permanently. "Our lo term objective is to see a restruct ing of the U. S.-China business relat ship," says Calman J. Cohen, chairm of the Business Coalition for U. S.-Ch Trade, which helps run the campaig

Those arguing for China say tha will mend its ways only if it develop prosperous, well-informed citizenry. A that won't happen, they say, unless eign investment—especially U. S. vestment—helps create a market ec omy that will nurture an open soci Says Maurice R. Greenberg, chief ex utive of insurance giant AIG: "The b efits of a long-term relationship w China are tremendous."

The effort is still in its early stag "They're trying to figure out what t ought to do," says one CEO involv Besides lawmakers in Congress, group also wants to reach out to l officials in California, Texas, New Y and the Midwest, places where the C na market is important. The group produced a video depicting China s pathetically to get across the mess that trade has improved life there.

MERELY "EDUCATION." Taking the l in the campaign is Boeing Co., wh commands 70% of the Chinese mar for Western-made planes. The prob is, China sometimes uses high-pro deals to show displeasure with Wa ington. For instance, on Apr. 10, Chin Premier Li Peng ordered 13 jets fr Europe's Airbus Industrie. That p vides "a significant toehold in the m

Business Goes to Bat for Beijing

A group of U.S. multinationals, including Boeing, Motorola, IBM, and AlliedSignal, has put together a pro-China lobbying effort covering several areas

SINO-U.S. TRADE The group is fighting efforts in Congress to end Beijing's most-favored-nation trade status. They want permanent MFN status conferred on China.

IMAGE The group is working to improve China's U.S. image with a big public-relations effort stressing the nation's qualities.

WTO The multinationals are pushing for China's eventual admission into the World Trade Organization.

DATA: BUSINESS WEEK

for Airbus," says Boeing spokesman stopher Villiers.

fficials associated with the initiative ze they are unlikely to win perma- MFN this year. So their effort will beyond this spring's MFN vote. Offi- say that their work is in the inter- of the U.S. and does not constitute ying for China, which would require n to register with the government. ead, the group says its goal is "ed- ion." Says Mark Holcomb, Wash- on-based spokesman for IBM: "It's t-sighted to call it lobbying. We need to get a broader understanding of what's at stake."

That kind of statement infuriates opponents, who charge that companies are simply shilling for Beijing. The attempt to win permanent MFN for China is "a new definition of chutzpah," says Mark A. Anderson, director of international trade affairs for the AFL-CIO, which wants the U.S. to suspend MFN.

Although pro-China moves by conglomerates have some people howling in the U.S., the companies may win points back in Beijing. Or at least, that's what they hope. "There are companies that want to speak and work in support of stable economic relations between the U.S. and China," says Robert A. Kapp, president of the U.S.-China Business Council. Such companies "are not at all sorry if the Chinese understand that they are doing that work." If Beijing appreciates these efforts, Corporate America may win even if Congress decides to keep up the heat.

By Bruce Einhorn, with William Glasgall in New York and bureau reports

EEZING OUT E JUNTA

ould Burma be the South Africa of the late 1990s? If campaigners against companies investing there, as PepsiCo, Unocal, Texaco, and , have their way, the word "divest- " will become as closely associated junta-led Burma as it was with heid-era South Africa. "We're trying t pressure on the military dictator- in Burma, and the only tangible sure is economic," says Louisa Ben- co-founder of the Burma Forum, a ing group in Santa Monica, Calif.

e activists and students are tak- nspiration in part from Burmese dent leader and Nobel peace prize er Aung San Suu Kyi, who since ember has been urging companies frain from investing until the re- sive political climate improves. y an open and secure political sys- can support an open, stable econo- Suu Kyi says in an interview in monsoon-stained Rangoon mansion e she spent six years under house t. She was released in July, 1995.

TEMPEST. So far, activists in the have gotten three municipalities to bit city governments from buying ucts from companies doing business rma, officially Myanmar (table). Un- the selective-purchasing measures, a Monica and Berkeley, Calif., for nple, may not fuel city garbage s with gasoline from Texaco, Arco, nocal. Pepsi machines in city hall- are barred because of PepsiCo $1 million bottling plant in Burma. milar measures are making their through the Massachusetts state lature and the city councils of New City, Oakland, Calif., and San Fran- , where votes are scheduled in com- weeks. Bills barring new U.S. in- ment are pending in Congress, ugh no votes are scheduled. Ac- s also have prevented a Taco Bell t, owned by PepsiCo, from opening

SUU KYI: *Wants an "open and secure" system*

at Stanford University and persuaded Harvard University to scrap a $1 million plan to switch from Coca-Cola to Pepsi.

Overall, at least 75 universities have active boycotts. "We write: 'The South Africa of the '90s' across the top of our promotional material," says Nick Thompson, 20, an environmental economics major at Stanford who gathered 2,000 signatures against Taco Bell. His group erected a large anti-Pepsi display, with the slogan "The Choice of a Genocidal Nation" in the campus center.

PepsiCo and Unocal Corp. say their investments are good for the people of Burma. "We certainly do not support dictatorships or tyranny in Burma or anywhere else," says a PepsiCo spokeswoman in Purchase, N.Y. "Over the long term, trade and investment help promote democracy." Unocal says its $280 million share in a natural gas partnership is helping improve Burma's infrastructure and living standards.

Companies outside the U.S. are paying little attention to the campaign. Japanese, Southeast Asian, and European companies are tempted by Burma's 45 million population, cheap labor, and abundant resources. The regime says it has approved $3 billion in investments, but experts say about $1 billion worth of projects primarily from Thailand, Singapore, Japan, and Malaysia has actually taken root. "Wherever you stand politically, you should understand there are other countries from other parts of the world going in," says Mark Mason, a Yale University specialist on Burma.

Even so, critics of the junta say the U.S. retains crucial leverage. U.S. oil companies provide legitimacy and money the regime needs to stay in power, says Simon Billenness, an analyst at Franklin Research & Development Corp., a Boston-based, socially responsible investment firm. "Burma needs, if not the support, then at least the acquiescence of the U.S.," says Billenness.

Suu Kyi isn't against investors. "We just think they've come in a little bit too soon," she says. Half a dozen U.S. companies, such as Levi Strauss & Co., have withdrawn to await a more favorable climate, both in Burma and with U.S. consumers. Doing business with dictators, they say, is bad business at home. That's the message Suu Kyi is trying to sell the world.

By Sheri Prasso in New York, with Robert Horn in Rangoon

A GRASSROOTS CAMPAIGN AGAINST BURMA INVESTMENTS

MUNICIPALITIES WITH RESTRICTIONS Berkeley, Calif.; Madison, Wis.; Santa Monica, Calif.

BANS UNDER CONSIDERATION State of Massachusetts; New York City; Oakland, Calif.; San Francisco; sanctions legislation pending in U.S. Senate and House

COMPANIES GETTING HIT Arco, PepsiCo, Unocal, and Texaco

COMPANIES THAT HAVE PULLED OUT FROM BURMA Amoco, Columbia Sportswear, Eddie Bauer, Levi Strauss, Liz Claiborne, Macy's

DATA: BUSINESS WEEK

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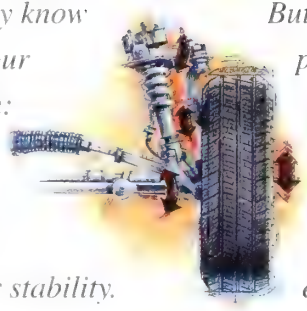

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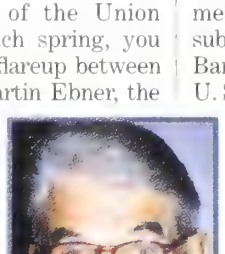
SWITZERLAND

THIS MERGER WOULD ROCK THE ALPS—AND BEYOND

A CS-UBS tie could unleash bank-merger fever in Europe

It had become a kind of ritual for the past several years. In the runup to the annual meeting of the Union Bank of Switzerland each spring, you could always count on a flareup between UBS management and Martin Ebner, the gadfly financier and dissident shareholder intent on making the giant lender more profitable. But even Zurich's most jaded gnomes weren't ready for the bombshell that exploded on Apr. 9. Rainer E. Gut, chairman of CS Holding, announced he had approached UBS about a possible merger. The marriage of the two rivals would create a European superbank whose assets of $670 billion would make it the world's second-largest lender, behind Japan's Bank of Tokyo-Mitsubishi Ltd.



STUDER: *Facing steep global costs and low domestic profits*

Officials from both banks were quick to point out that no formal merger bid had been made. But it became clear that even if UBS's board turned thumbs down at a meeting set for Apr. 11, the end of independence for the blue-chip banks was a possibility. "CS and UBS are in play," says Matthew Czepliewicz, an analyst with Salomon Brothers Inc. If the banks link up—or find other partners—they could trigger a wave of bank mergers in Europe. A CS-UBS merger could also speed the restructuring of Corporate Switzerland, which has been rocked by the $27 billion tie-up of drug giants Ciba-Geigy Ltd. and Sandoz Ltd.

CAUGHT NAPPING. Each lender could gain mightily from a consolidation of Switzerland's vastly overbanked domestic market. And that the two players entertained the idea of a merger at all acknowledges that even the richest banks in the world are finding the expense of building global investment-banking and trading networks prohibitive. Indeed, a CS-UBS hookup would provide a European response to Japan's melding of Bank of Tokyo and Mitsubishi Bank as well as that of Chemical Banking and Chase Manhattan in the U.S., which took effect on Apr. 1.

A CS-UBS merger would produce a bank with $35 billion in capital and a $47 billion market capitalization, double the size of Deutsche Bank, Europe's largest lender. Moreover, the Swiss megabank would rank in the top five in the world in loan syndications, merger-and-acquisitions advice, and underwriting. It also would be better able to weather the worsening state of the banking industry at home. The strong Swiss franc has made the country "the weakest of the major currency economies—in a big way," figures Jim O'Neill, a partner at Goldman, Sachs & Co. in New York. As a result, real estate losses are rising and profits on loans are dwindling.

To make matters worse, the price of getting a foothold in global investment banking is getting steeper by the day. Both CS Holding and UBS were caught napping last year when Swiss Bank Corp. bought old-line British investment bank S. G. Warburg Group PLC. move leapfrogged the bank, a perer laggard, into the top spot in Europ investment banking. But it's get harder to keep up with the fast pac change, and that is clearly punisl earnings at the Swiss banks.

UBS has been spending heavily build up its investment-banking trading arms in America, Asia, Britain—often by offering multimil dollar salaries to lure star traders analysts from CS First Boston. F spending and modest profits may plain why Gut has cited the need "far-reaching solutions" for the p lems Swiss banks face. Another mo says a former CS executive: Gut, must retire in four years but may v to step down sooner.

POLITICAL BACKLASH? Any merger tween UBS and CS would have imm consequences for the Swiss econ The banks' combined w force of some 60,000 w be cut by as many as 20 in Switzerland alone, fig Mary France Goy of Swiss Association of B Personnel. With Cooper Lybrand predicting even fore the merger talk bec public that 60,000 jobs be lost in the Swiss ban industry within a dec heavy layoffs by lend could easily launch a poli backlash, especially if t exacerbate the count 4.6% unemployment r But that wouldn't be li to scuttle any deal betw UBS and CS.

As for Ebner, the no indication he'll treat from the cons pressure he has app at UBS since 1991. UBS merger discuss

GUT: *Swiss banks n "far-reaching solu- tions" for their woe*

"are maybe the first step that sh the old system has to break up," an Ebner strategist. "Talking mer like this should be as logical in Swit land as it is in the U.S." Once upo time, that would have been unthinka But now that the world is closing i the Swiss, they may have no choice to join the parade toward corpo marriages.

By Bill Javetski in Paris, with J Parry in Geneva and bureau repor

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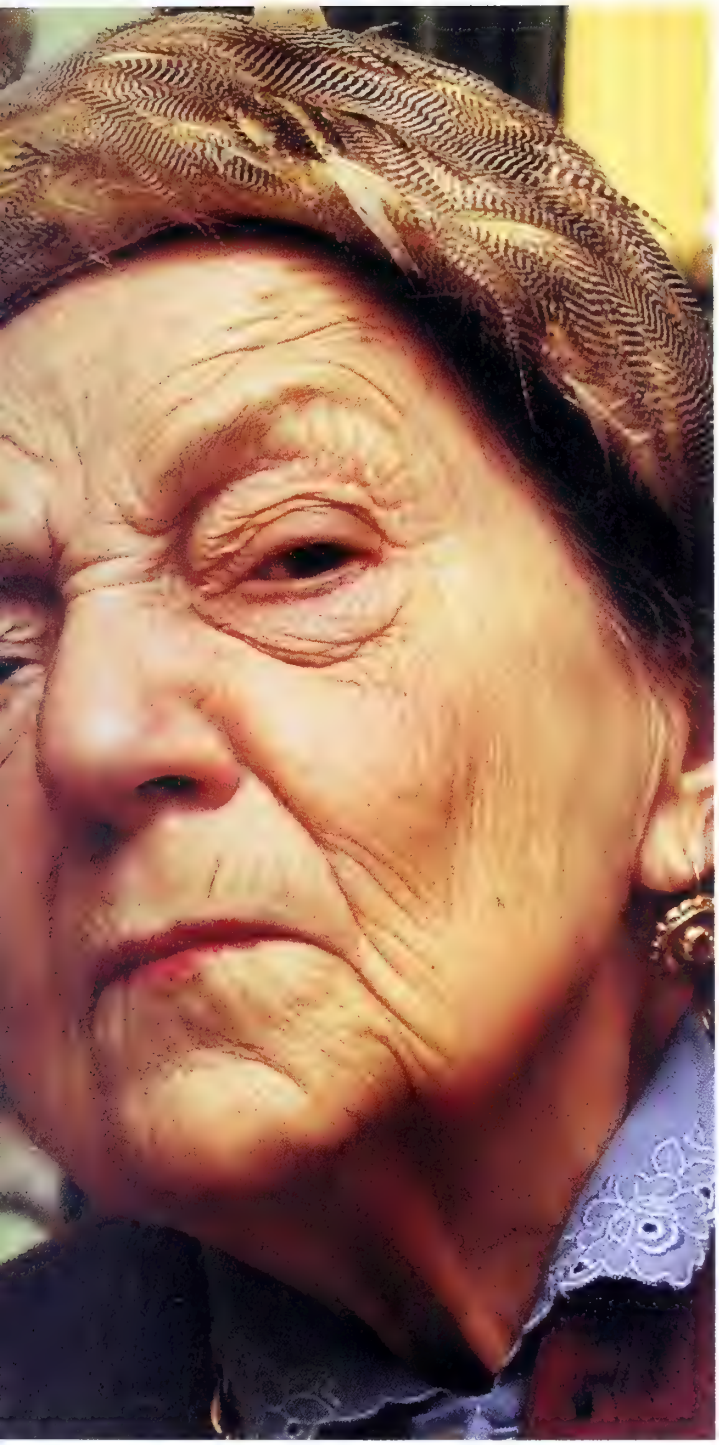

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RUSSIA

JUST HOW COMMUNIST MIGHT IT GET?

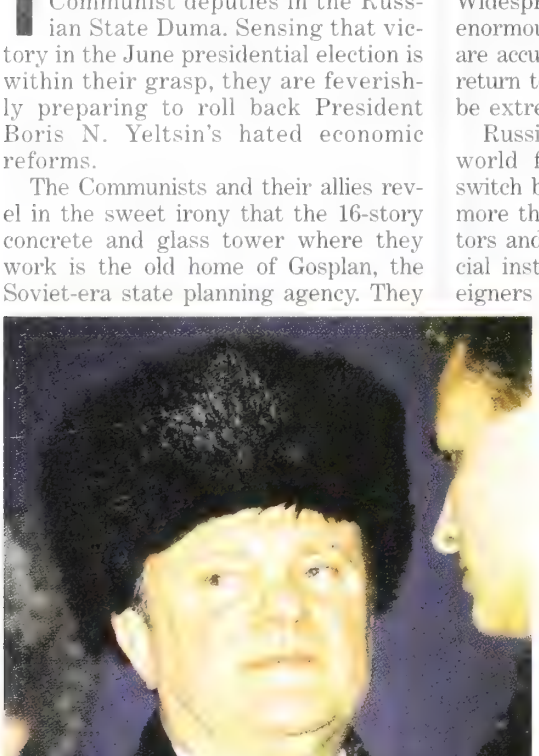
A Zyuganov win would stop the reform process in its tracks

These are the best of times for the Communist deputies in the Russian State Duma. Sensing that victory in the June presidential election is within their grasp, they are feverishly preparing to roll back President Boris N. Yeltsin's hated economic reforms.

The Communists and their allies revel in the sweet irony that the 16-story concrete and glass tower where they work is the old home of Gosplan, the Soviet-era state planning agency. They don't literally call for Gosplan's revival, but they certainly favor a much greater degree of state control over the economy than exists today. The free market, they argue, has produced industrial collapse and vast social injustice. Only through government intervention, they say, can Russia hope to regain its former stature.

But if the Communist candidate Gennadi Zyuganov does win, he will encounter practical limits on how much of Yeltsin's work he can undo. So much of the old order has been dismantled that it would be very tough to reassemble. For instance, Yeltsin's government has transferred assets accounting for 70% of economic output to private hands. Widespread renationalization would be enormously disruptive. And consumers are accustomed to well-stocked stores. A return to shortages and long lines would be extremely unpopular.

Russia is also too closely tied to the world financial community to easily switch back to a closed system. It owes more than $130 billion to foreign creditors and relies heavily on foreign financial institutions and bond sales to foreigners to fund its budget.



VULNERABLE? *Zyuganov is leading in the polls, but Yeltsin is catching up*

The Communist Plans for the Economy

PRICES A return to price controls is likely. The feared fallout: Shortages and long lines at stores.

SUBSIDIES They will increase sharply for state-owned industries and the farm sector. Likely result: A runaway deficit and inflation.

TRADE Look for stiff tariffs on imports to protect local producers—but consumers will suffer.

PRIVATIZATION It will be curtailed. Some big companies may be renationalized. Bad management and red ink will increase.

BANKING The private banking sector may be severely limited. Depositors may panic, and more money could go overseas. Credit for private industry could dry up.

That said, it would be silly to rule out major changes if Zyuganov wins. Selective renationalizations, more severe restrictions on foreign investment, high import tariffs, and increased weapons production at the expense of consumer goods are all near-certainties. "I'm quite certain they could never bring back the Brezhnev era. The public wouldn't tolerate it," says Maxim Boyko, Yeltsin's current privatization chief. "But they could mess things up very dramatically."

A wide range of ideologues and pragmatists are vying for Zyuganov's ear. Two Soviet holdovers are emerging as likely policymakers in a Zyuganov regime. Former Soviet Prime Mini Nikolai I. Ryzhkov is well-placed t the Communist Prime Minister, w Yuri Maslyukov, Gosplan's last b would be Zyuganov's economic gur

A fly on the wall at the Duma off would hear wild talk about shut down all commercial banks and d ging Yeltsin's privatization officials be Stalin-style kangaroo courts. But t extreme measures championed by Communist hard core are likely to be jected by their more moderate allie

BIG QUESTION. There does seem t general agreement on a few key poi A Zyuganov government would qui boost production. Subsidies would to beleaguered factories, fueling i tion. Zyuganov would also kill plan privatize concerns in supposedly str gic sectors including defense, utili energy, and transportation. The question is whether the Commun might reverse some of Yelt privatizations. Former Pr Minister Ryzhkov says that w happen. But at the same tim warns: "Only criminal privat tions will be touched."

Of course, that is jargon many of the sell-offs of s shares organized by for Deputy Prime Minister An Chubais, who was fired last uary. In their efforts to halt vatizations, the Commun might find allies among con ny directors worried about ing their jobs in private inves instigated management shake

The Communists also thr en to sharply restrict investm from abroad and limit non-R ian programming in the me But they also promise stre lined regulations to attract m investment. The foreign busi community is not particul worried.

It is also far from certain that Communists will win. Those who they favor Yeltsin have risen from 8 those polled in January to 18% at sent. Zyuganov's ratings remain ste at about 25%. Yeltsin is running a sm campaign. He has stolen a lot of Communists' thunder with major eff to help unpaid workers and pension Yeltsin also has the support of the dia, which fear a return to Commu censorship.

But the Communists still have a g shot at winning. If they do, that Gosplan building will be really humm

By Peter Galuszka and Patr Kranz in Moscow

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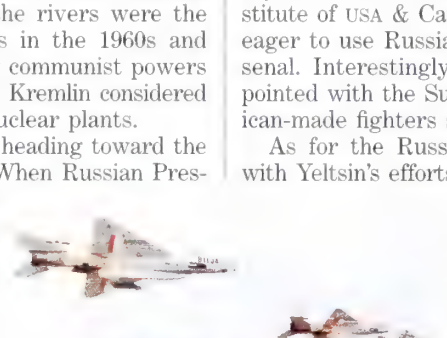
EDITED BY STANLEY REED

THE SINO-RUSSIAN THAW IS MAKING WASHINGTON SHIVER

During the cold war, the world's most dangerous flash point may well have been the stark, rocky valleys of the Amur and Ussuri Rivers that form the border between Russia and China. Disputed islands in the rivers were the scene of battles between border guards in the 1960s and 1970s. Hostility between the two leading communist powers grew so intense that in the mid-1960s, the Kremlin considered air strikes to destroy China's fledgling nuclear plants.

Today, however, Russia and China are heading toward the closest relations they've had in decades. When Russian President Boris Yeltsin visits Chinese leaders in Beijing on Apr. 24, they'll work on settling troublesome border questions. Yeltsin will also wrap up major arms deals. China is buying 60 late-model Sukhoi-27 jet fighters for more than $2 billion. Moscow is also allowing the Chinese to build the Sukhois and perhaps more advanced aircraft under license. This will be the first such licensing deal since Moscow let China build AK-47 assault rifles in the 1950s.



RED STARS RISING: *Chinese fighters*

ANTIQUATED ARSENAL. The two countries will also push for expanded trade. Yeltsin will be on hand when a Russian bank, Rossiyskiy Kredit, opens a Shanghai office. TICOM Group, a big conglomerate, will set up shop there as well.

The new Sino-Russian coziness is bad news for Washington. It signals a shift in the traditional three-way game played by Russia, China, and the U. S. Since the 1970s, Washington has regularly trumped Moscow and Beijing by playing one against the other. But now it appears to be the Americans' turn to lose. The Russian-Chinese rapprochement comes at a time when the U. S. is sharply at odds with China and an antiwestern, Communist regime could soon come to power in Moscow.

For China, easing strains on its northern flank gives it a freer hand to bully Taiwan and other neighbors and defy the U. S. Yeltsin has supported China on Taiwan. "The C nese badly want to pacify Russia. They'll agree to anythin says Victor A. Kremenyuk, deputy director of Moscow's stitute of USA & Canada Studies. The Chinese military is a eager to use Russian weapons to upgrade its antiquated senal. Interestingly, the Chinese brass is said to be dis pointed with the Sukhois, which aren't in a class with Am ican-made fighters such as F-16s.

As for the Russians, the big lurch toward China fits with Yeltsin's efforts to show that he is no longer subservi to Washington. Yeltsin is fighting an up battle for reelection, and he is well aw that Russia's decline from superpower international beggar status is one of issues that has made him unpopular. He trying to create the illusion that Russia resuming its old superpower role.

PROSPECTIVE CUSTOMER. Yeltsin's aid see fast-growing, arms-hungry China a big client that could prop up Russi sagging military industries for yea They also calculate that such deals co deter the Chinese from troublemaki in the Russian Far East. The spars populated but timber- and mineral-r region has become estranged from Moscow since the Sov breakup. The Kremlin worries that local bosses might ma deals with China for financing and labor—creating the pos bility of an eventual split-off.

With so many reasons for Beijing and Moscow to deals, there seems little Washington can do to halt the tre In fact, China is the most likely candidate to play the spoi Beijing just can't seem to resist throwing its weight arou these days. It may be just a matter of time before it g around to stepping on the Russians' toes.

By Peter Galuszka in Mosc with Pete Engardio in Hong Ko

GLOBAL WRAPUP

DRAMA ON THE DMZ

▶ Bill Clinton could be walking into a crisis when he visits South Korea on Apr. 16. North Korea is openly flouting the 1953 armistice that ended the Korean War by illegally moving hundreds of heavily armed troops into the demilitarized zone.

Washington and its Asian allies thought they had tamed North Korea with a 1994 deal in which the North agreed to shelve its nuclear-weapons program in exchange for $4.5 billion in nuclear-power and oil aid. But the North's economy has drastically worsened, and malnutrition is widespread. Russia and China have exacerbated things by cutting back assistance and demanding hard currency for oil. Backed into a corner, North Korea's Kim Jung-Il is threatening war to win bargaining leverage.

The worried U. S. and Japanese governments have recently sent out feelers to the North. Last month, Japanese Prime Minister Ryutaro Hashimoto dispatched a secret diplomatic mission to North Korea in a bid to kick-start diplomatic talks.

But the North shows no sign of wanting a quick resolution. Instead, it seems to be trying to drive a wedge between Seoul, which would like to see the North Korean regime squeezed, and the U. S. and Japan, which worry about the North collapsing. The timing of the DMZ provocations is also significant: just days before elections in which South Korean President Kim Young Sam's party is expected to lose its majority. For Clin ton, the problem of managing the Koreas could be getting even trickier.

By Brian Bremner in Toky

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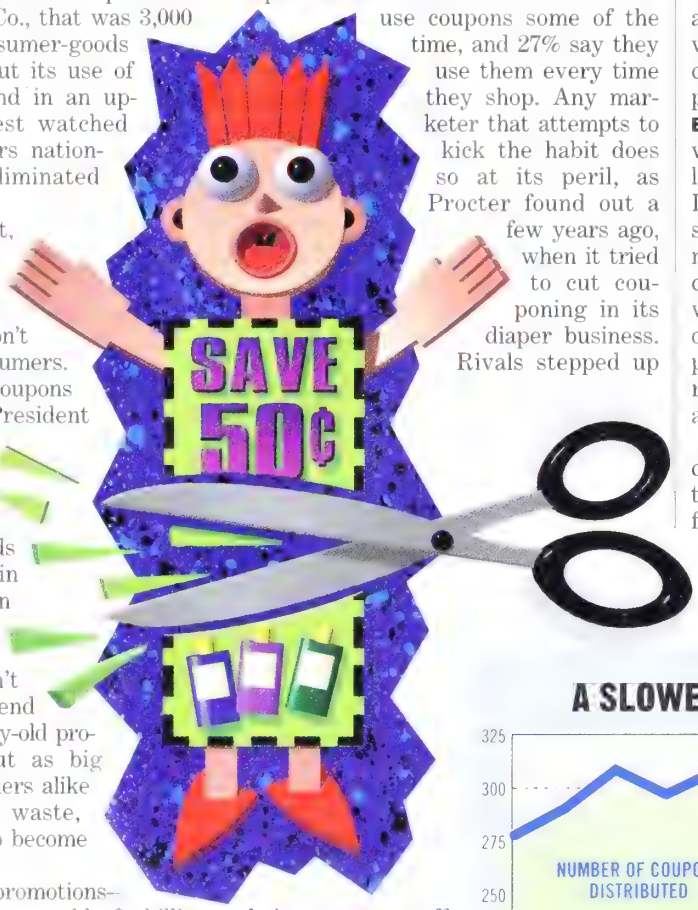
PROMOTIONS

FIRST, GREEN STAMPS. NOW, COUPONS?

P&G wants to end these sales boosters–and rivals may follow

Last year, makers of everything from Kitty Litter to ketchup barraged the average American household with about 3,000 discount coupons. For Procter & Gamble Co., that was 3,000 too many. The consumer-goods giant has already cut its use of coupons in half. And in an upstate New York test watched closely by marketers nationwide, P&G has eliminated coupons completely.

As P&G sees it, those coupons cost too much to print, to distribute, and to process, and they don't benefit enough consumers. "We decided that coupons have to go," P&G President Durk I. Jager said at a trade meeting, according to *Supermarket News*. Some packaged-goods rivals are joining in with their own coupon cutbacks in this P&G test area. The cutbacks aren't likely to spell the end of coupons—a century-old promotional tactic. But as big marketers and retailers alike struggle to reduce waste, coupons are likely to become a lot less abundant.



NARCOTIC. Coupon promotions–which cost marketers roughly $8 billion last year—have always been inefficient. Of the 292 billion coupons issued in 1995, the overwhelming majority missed their mark. Redemptions dropped for the third year in a row, to 5.8 billion (chart). That's just 2% of the total, half the rate in 1980, according to coupon processor NCH Promotional Services in Lincolnshire, Ill. The decline came partly because manufacturers, eager to limit their exposure, have cut the average time before expiration from 7.6 months in 1988 to 3.5, according to coupon processor CMS Inc.

Love them or hate them, coupons have become a narcotic that marketers can't easily kick. Although most coupons never get used, shoppers have come to expect them. Some 83% of consumers use coupons some of the time, and 27% say they use them every time they shop. Any marketer that attempts to kick the habit does so at its peril, as Procter found out a few years ago, when it tried to cut couponing in its diaper business. Rivals stepped up their own cents-off promotions, and P&G was forced to abandon the experiment.

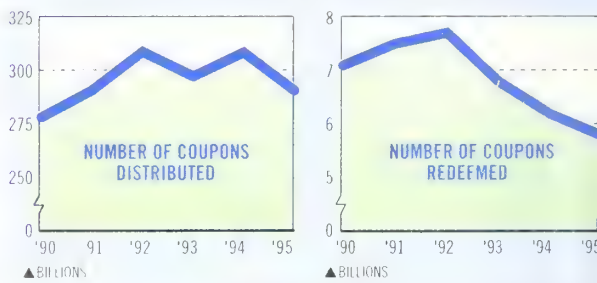
This time, however, P&G could find some allies. "We may as an industry have begun to rely too heavily on [coupons]," says Robert H. Bolte, vice-president for corporate marketing services at Clorox Co. which is planning its own test in upstate New York. Procter's archrival in diapers, Kimberly-Clark Corp., the maker of Huggies, says it's also experimenting with a coupon cutback in the region. Lever Brothers Co. is said to be doing the same. The company declined to comm

P&G's test is in keeping with its cent cost-cutting binge. It has clo dozens of plants, chopped thousand jobs, and slashed discounts to trade tomers, which have helped it to lo prices. Will prices fall more if P&G b out of coupons? One food executiv P&G's test market says supermark are running better specials, as they p along savings from handling fe coupons. Generally, though, marke are likely to do more in-store pro tions, such as free samples. And inst of blitzing the market, they'll aim motions at the likeliest customers. T also may use more "clipless coupo where the cents off are deducted at cash register as a part of frequent-sh per programs.

BACKLASH. But diehard coupon clipp won't give up without a fight. In Bu lo, Erie County Legislator Raymond Dusza has organized a petition drive says has already garnered 20,000 natures calling on P&G to rescind its cision. "I'd let my teeth fall out befo would buy another tube of Crest," w one angry shopper to a Syracuse ne paper. Wegmans Food Markets Inc regional chain, says the backlash ha affected sales.

With so many consumers eager coupons, there will always be marke to accommodate them. And someti for good reason: A coupon is still on the best ways to get shoppers to tr new product. Cereal makers h stopped the buy-one-get-one-f coupon wars of recent years, but

A SLOWER CLIP FOR COUPONS



DATA: NCH PROMOTIONAL SERVICES

not likely to dump coupons altoget Nor are some smaller brands, wh have a better chance of attracting n users—rather than helping existing c tomers—with a coupon offer. S coupons are likely to cease being a s ond form of currency at the cash re ter. Instead, they'll do what they best: give an occasional boost to a n or revamped product.

By Zachary Schiller in Clevel

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CÉZANNE

The Large Bathers, 1906, Oil on canvas, Philadelphia Museum of Art. Purchased with the W.P. Wilstach Fund, W 1937-1-1

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Edward G. Rendell
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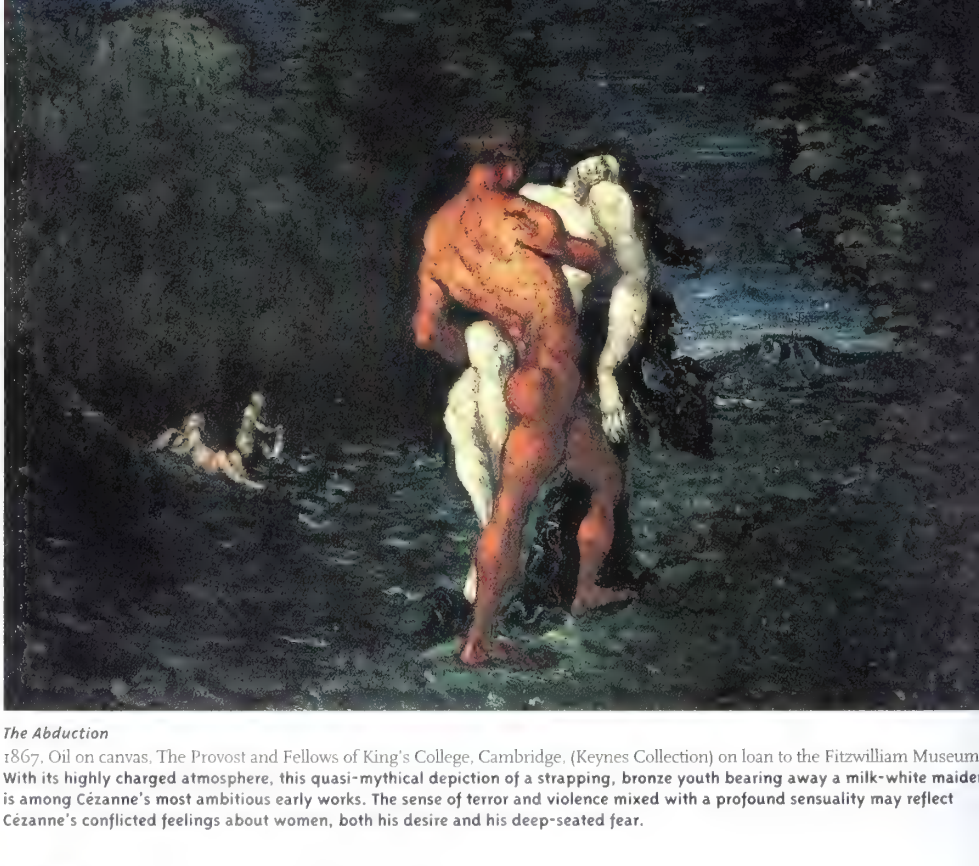
of Philadelphia

Cezanne is made possible in Philadelphia by Advanta.

The exhibition has been jointly organized by the Philadelphia Museum of Art, the Réunion des Musées Nationaux/Musée d'Orsay, Paris, and the Tate Gallery, London. Additional support has been provided [illegible] from The Pew Charitable Trusts and the National Endowment [illegible] Arts, by an independent [illegible] the Federal Council on the Arts and the Humanities, and by a [illegible] contribution from Gisela [illegible] USAir is the official [illegible] for the exhibition. NBC [illegible] sponsor

CÉZANNE

One hundred years ago in Paris, an artist from Aix-en Provence was given h first solo exhibition at the age of fifty-six. The artist's name was Paul Cézanne, ar over the ensuing decades his reputation soared to the point where he was regarde by many as the father of modern art. Now, a century later, art lovers on bo sides of the Atlantic have a rare opportunity to get to know Cézanne all over agai



The Abduction
1867. Oil on canvas. The Provost and Fellows of King's College, Cambridge, (Keynes Collection) on loan to the Fitzwilliam Museum
With its highly charged atmosphere, this quasi-mythical depiction of a strapping, bronze youth bearing away a milk-white maide is among Cézanne's most ambitious early works. The sense of terror and violence mixed with a profound sensuality may reflect Cézanne's conflicted feelings about women, both his desire and his deep-seated fear.

Organized by the Philadelphia Museum of Art in collaboration with the Réunion des Musées Nationaux/Musée d'Orsay in Paris and the Tate Gallery in London, this exhibition presents the most comprehensive view of the artist's work in 60 years. Visitors to the exhibition in Philadelphia will see some 100 paintings, as well as scores of drawings and watercolors. While past exhibitions have focused on specific aspects of Cézanne's oeuvre — the bathers, for example, or the watercolors — this once-in-a-generation presentation brings together early and late work, portraits and landscape still lifes and mythological paintings, watercolo and oils, offering rare insight into the world this complex and brilliant artist.

Philadelphia, the only U.S. stop on the exh bition's tour, has long been for Cézanne schola the most important single destination outside France. Within the Museum's own collection a 16 oil paintings, 10 watercolors, and two sketc books by Cézanne. Just outside the city are th extensive holdings of The Barnes Foundatio with 66 paintings and watercolors by the artist

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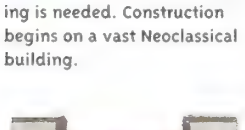
Philadelphia Museum of Art Through the Years

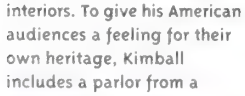
Standing high on its own hill at the end of a tree-lined boulevard, the Philadelphia Museum of Art has been making history for over a century.

1876 The Museum is founded. Originally housed in Memorial Hall, a structure built for the Centennial Exposition, it is dedicated from its beginnings to "the improvement and enjoyment of the people of the Commonwealth."

1919 With the collections growing rapidly, it becomes clear that a new, larger building is needed. Construction begins on a vast Neoclassical building.



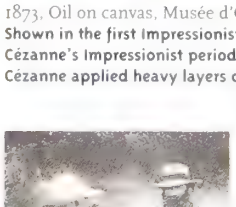
1933 Fiske Kimball becomes director of the Museum and conceives a plan to transform the second floor of the building into a "walk through time," where visitors can proceed through a series of authentic period rooms. Kimball sends his curators around the world in search of the finest, best-preserved architectural interiors. To give his American audiences a feeling for their own heritage, Kimball includes a parlor from a Philadelphia townhouse.



Powell Room, c.1772, Philadelphia Museum of Art, given by Mr. and Mrs. [illegible] Klemsky

[illegible] The Museum's new home is completed on the site of the old Fairmount [illegible]

The House of the Hanged Man, in Auvers-sur-Oise
1873. Oil on canvas. Musée d'Orsay, Paris. Bequest of Comte Isaac de Camondo (R.F. 1970).
Shown in the first Impressionist exhibition in 1874, this work, painted in Auvers, is widely regarded as the early masterpiece of Cézanne's Impressionist period. Camille Pissarro's influence is evident in Cézanne's lighter palette, yet unlike his Impressionist pee Cézanne applied heavy layers of paint to solidify its pictorial structure.



Cézanne and Pissarro, c. 1873. Cezanne (right) spent some of his happiest times painting with his friend Pissarro in the villages of Auvers and Pontoise, a few miles from Paris. Musée d'Orsay, Paris. Service de documentation.

An Enduring Enigma

What is it about Cézanne's art that stops people in their tracks and makes even the most casual museum visitor pause and reflect? Perhaps it's the pure intensity of his colors, the hot oranges, vibrant greens, and stunning blues that seem to jump off the canvas. Or maybe we respond to the timeless sense of the monumental with which Cézanne seemed capable of investing the most lowly fruit or table. Certainly, other artists painted more convivial scenes — Renoir's jolly boating parties spring to mind. In Cézanne's art, though, we have no need of scenes of human interaction to feel the pulse of life that animates every image. Each tree, each apple vibrates with an inner life that captivates us instantly and rewards contemplation.

A Life in Painting

Of Cézanne as a person we know relatively l tle. Born in 1839 in Aix-en-Provence in the sou of France, Paul Cézanne was the only son of Lou Auguste Cézanne — a successful hatter turn banker. His family, though far from being part Aix's elite, achieved a certain status when th moved into Jas de Bouffan, a country house abo a mile from the city center.

With no brothers, the young Cézanne look to his schoolmates for companionship, befrien ing a slight, pale boy named Émile Zola. The tv friends spent idyllic youthful days hiking throug the hills of Provence, swimming in the Arc Rive hunting, picnicking, and exploring among tl pine trees and rocky hills.

After the death of his father, Zola left for Par leaving his closest friend behind. Eager to becon an artist but intimidated by his father, Cézan tried his hand at banking and even began studi for a law degree before acknowledging to hir self that his destiny lay with the paintbrush.

After a first trip to Paris in 1861, the artist beg a peripatetic lifestyle that rarely saw him settled one place for more than a year or two. In Paris l

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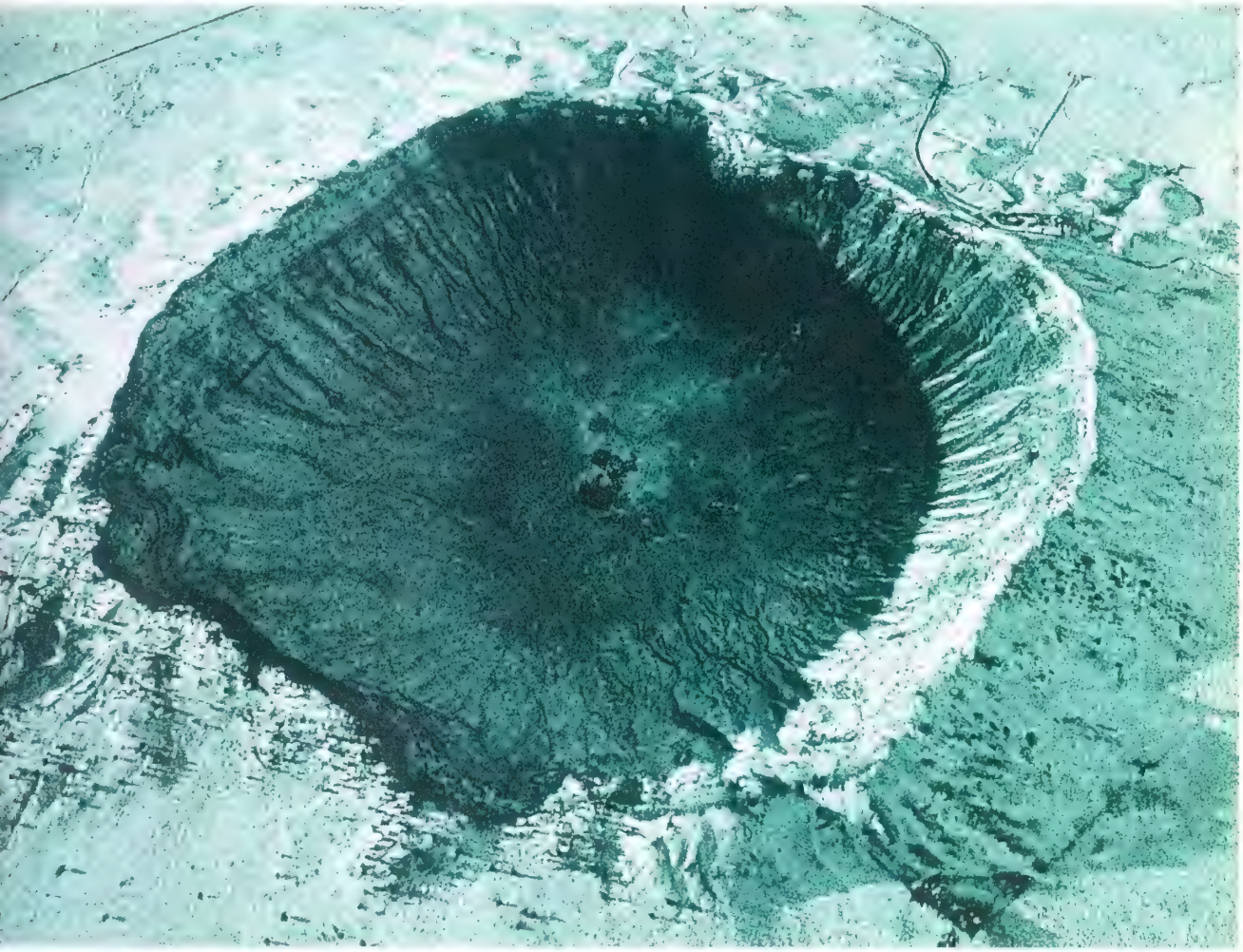

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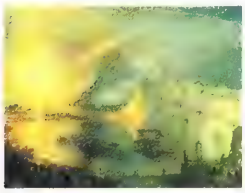
Philadelphia Museum of Art Through the Years

1928 The Museum receives the John Howard McFadden bequest of his collection of English art, which contains J. M. W. Turner's powerful and terrifying painting (below).

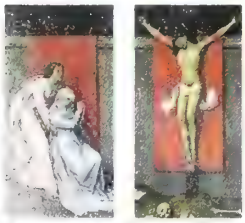


J. M. W. Turner, *The Burning of the Houses of Lords and Commons, October 16, 1834*, 1834 or 1835. Oil on canvas. The John H. McFadden Collection.

1929 Three blocks from the Museum, and under its auspices, the Rodin Museum opens. The Museum contains his collection of 124 bronzes, marbles, and plasters by Auguste Rodin.

1929 Thomas Eakins's widow, Susan MacDowell Eakins, and her friend, Mary Adeline Williams, donate a collection of paintings, sculptures, sketches, and archival material that will form the nucleus for the largest collection of the artist's work in existence.

1933 The collection of Philadelphia lawyer John G. Johnson is moved to the Museum. Of extraordinary importance, this collection contains Italian and Northern European Renaissance paintings, 17th-century Dutch pictures, and important 19th-century works by Johnson's contemporaries, such as Claude Monet and Edgar Degas.



[illegible] Weyden, *The Crucifixion, with the Virgin and Saint John the Evangelist* [illegible], c. 1460-64, Oil on oak panel. John G. Johnson Collection.

Cézanne setting out to paint a landscape near his home in Aix-en-Provence.
Musée du Louvre, Paris. Département des Arts Graphiques.

longed for the rustic solitude of Provence; back home he became restless and hankered after the excitement of the capital.

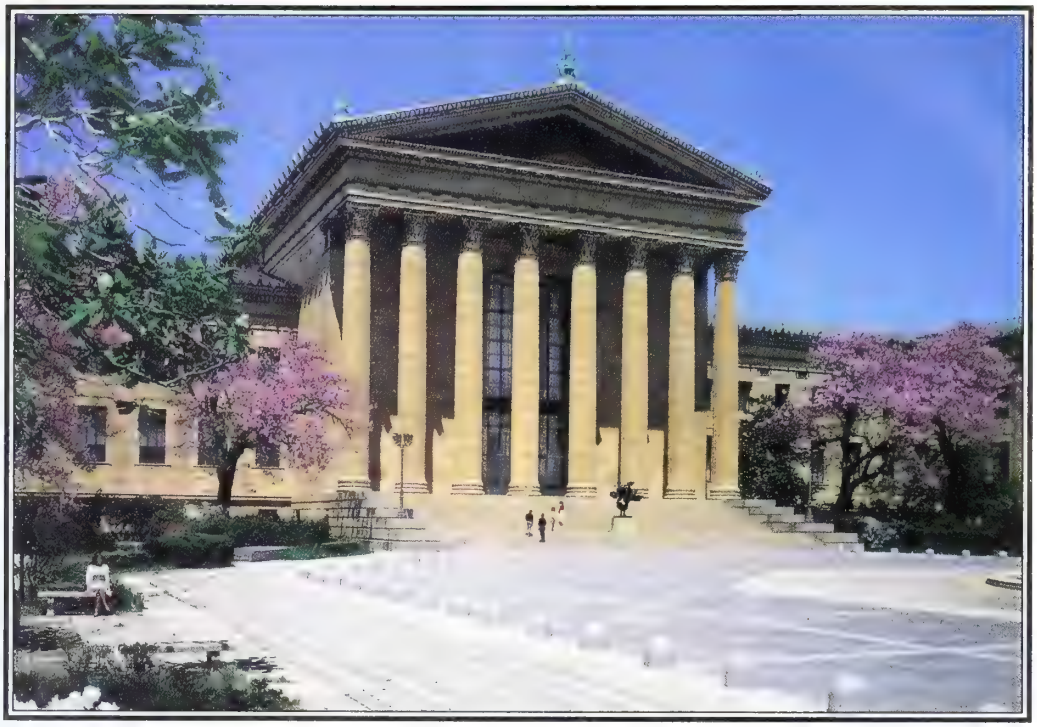
Timid in matters of love, Cézanne, in his 30th year, met a young woman named Hortense Fiquet, who became his mistress and with whom he had a beloved son (named Paul after his father) in 1872. The couple, whose relationship seems often to have been strained, did not marry until 17 years later when, largely in deference to his father (from whom he had kept his family secret for almost two decades) the pair were formally united.

Artistic success eluded Cézanne for almost his entire life. He was consistently rejected from the official Salon in Paris, an institution that he publicly derided but from which he yearned for acceptan While respected by his fellow artists, he was only s radically sought out, on account of his famou grave temperament. Camille Pissarro becam close friend, as did the genial painter Auguste Ren Claude Monet was often baffled by the Proven artist's behavior. On one occasion, perceiving insult, Cézanne flew into a rage and stormed out a lunch party at Monet's home in Giverny.

A loner by nature, he remained loyal to Mediterranean roots, and will always be clos associated with that place. In his later years, he w by his own volition, increasingly isolated. Afflic by diabetes but as devoted as ever to his paintin he pursued his muse relentlessly and allowed f distractions. Cézanne died in 1906 at the age of

And yet, time has proven him as great greater than any of his contemporaries, his gift enduring, his legacy as rich. While what we kn of his personal history lacks engaging anecdot Cézanne's life in painting was an endlessly reve ing journey of discovery.

The Great Pine
c. 1889, Oil on canvas. Museu de Arte de São Paulo, Brazil. Chateaubriand Collection.
For Cézanne, the image of the pine tree held powerful associations of youthful adventures in the Provençal countryside. As first painted, the top of the tree was cut off by the edge of the canvas. Aiming for more grandeur, Cézanne added a band of canvas th allowed him to show the entire tree standing proud against the blue sky.



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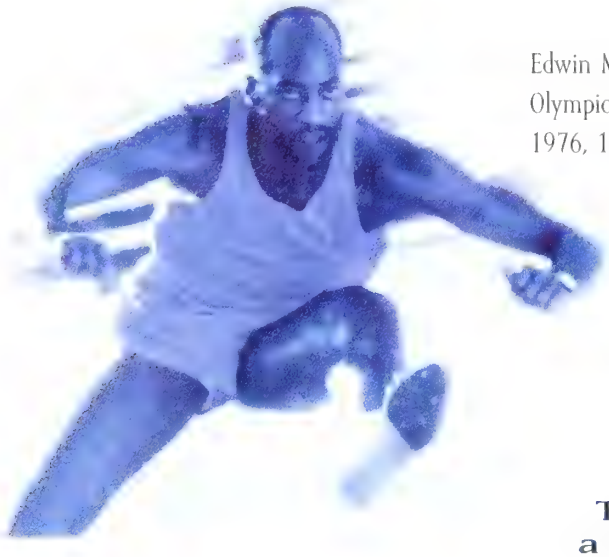

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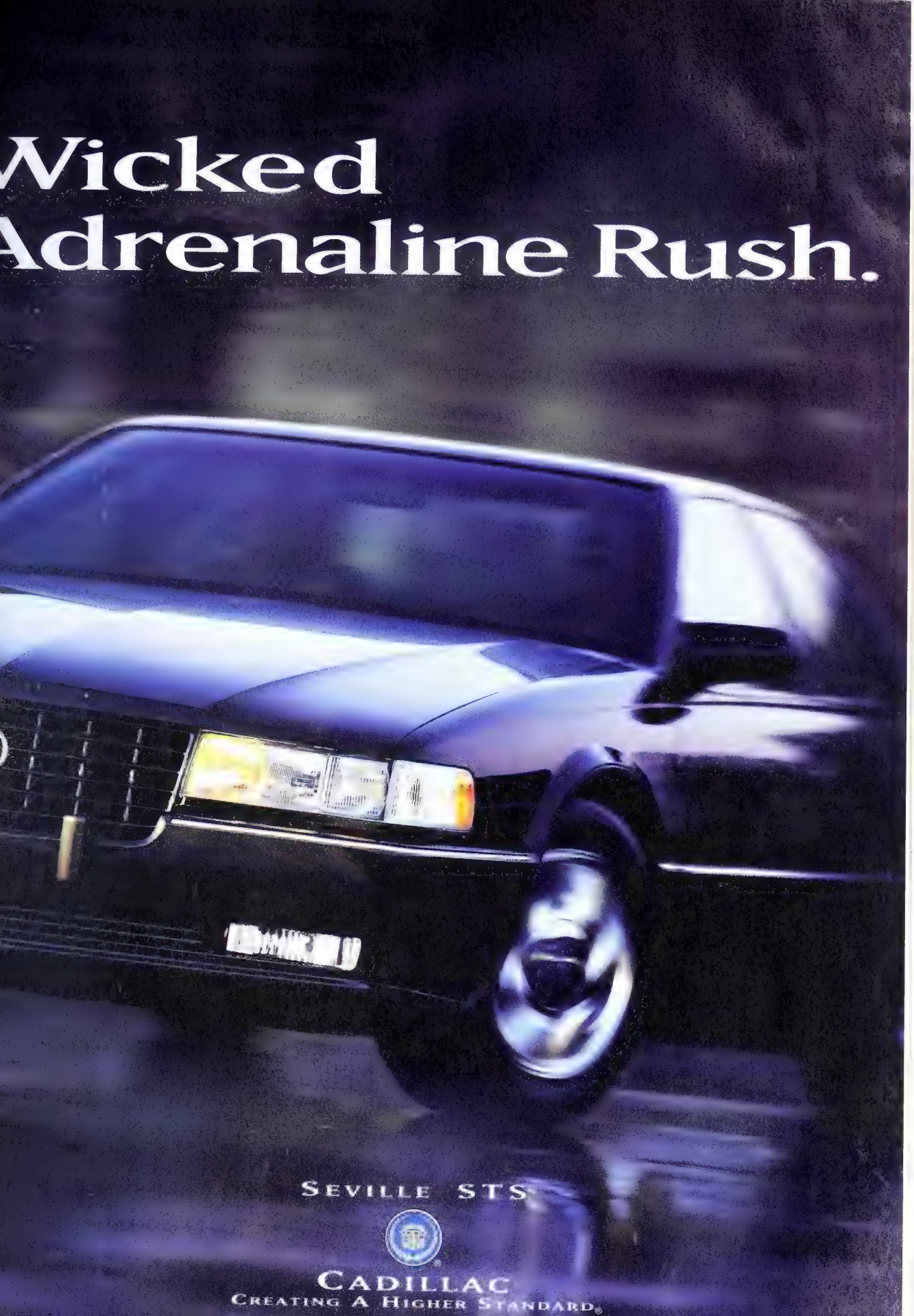
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Philadelphia Museum of Art Through the Years

[illegible] A great Cézanne exhibition of 63 works is shown at the Museum.

[illegible] The donation of Louise and Walter Arensberg's collection, rich in work by Constantin Brancusi, Marcel Duchamp, and the Cubists, establishes the Museum as home to the world's most important collection of Duchamp's work.

Marcel Duchamp, *Chocolate Grinder (No. 2)*, 1914, Oil, graphite, and thread on canvas, The Louise and Walter Arensberg Collection.

[illegible] The A. E. Gallatin Collection of 20th-century art begins to be given to the Museum. Included are such seminal works as Picasso's *Three Musicians*.

[illegible] The Museum receives Mr. and Mrs. Carroll S. Tyson, Jr.'s collection of Impressionist and Post-Impressionist paintings, including such masterpieces as Van Gogh's *Sunflowers*.

[illegible] Van Gogh, *Sunflowers* [illegible] 1888, Oil on canvas, The Mr. and Mrs. Carroll S. Tyson, Jr. Collection.

Mont Sainte-Victoire Seen from Bibémus
c. 1897, Oil on canvas, The Baltimore Museum of Art. The Cone Collection, formed by Dr. Claribel Cone and Miss Etta Cone of Baltimore, Maryland.
This canvas was painted at Bibémus, an ancient quarry a few miles from Aix-en-Provence. In his later years, Cézanne made the journey to Bibémus frequently, using a mule to carry his painting supplies and, on occasion, staying the night in a small building that he rented there. The monumental presence of Mont Sainte-Victoire rises up dramatically behind the stone cliffs of the quarry.

Exorcising the Demons

The taciturn face that the young Cézanne showed the world masked an inner life preoccupied with the violent and erotic. In his early work, highly charged, sensuous images leapt from his turbulent imagination onto the canvas in a whirl of intense colors and thick paint, often applied with a palette knife — or even his thumb. Women repelled and attracted him simultaneously. In his early canvases we see them either offering up their charms seductively or being strangled, tortured, or abducted, helpless to save themselves.

Struggling with his own inner demons, he found it difficult to get along with others, and we can well imagine that the meeting between Cézanne and Édouard Manet was a strange one — the elegant Parisian, dressed always in a top hat and gloves, and the rough peasant from the South, who rarely uttered a complete sentence.

Having failed the entrance exam to the École des Beaux-Arts in 1861, he became so accustomed to having his works rejected by the Salon that he once delivered his canvases to the hallowed exhibition in a wheelbarrow. The rejection must have been particularly harsh in 1868, when his friends Manet, Monet, Pissarro, Renoir, and Sisley all had work accepted. One critic commented that Cézanne's paintings, "provoke laughter yet they're pitiable: they reveal the most profound ignorance of drawing, of composition, of coloring."

"A wise counselor"

Wary of emotional entanglements, Cézanne felt curiously at ease with his friend Camille Pissarro, whose *plein-air* (in the open air) method of landscape painting had already made him a figur great influence on the Parisian art scene.

In 1872 Cézanne took his wife and son to the painter at Pontoise, a village on the Oise R a few miles northwest of Paris. Cézanne regar Pissarro as "a father to me. He was a wise co selor and something like God Almighty." Pain alongside him, Cézanne became less violen temperament, more meditative. His style more assertive than Pissarro's, though, anc still used the palette knife. A peasant who the two friends at work said, "When working, sarro pricked...while Cézanne laid in."

In the nearby village of Auvers, Cézanne s ed to complete entire canvases out of doors. so began a lifelong commitment to landsc painting and a profound respect for nature. sarro introduced his young acolyte to his met of modeling by tones, and encouraged hin lighten his palette to convey the saturated blues greens of the Île-de-France landscape.

"I want to make of Impressionism someth solid and durable..."

Replacing the harsh blacks and whites of early work with a more varied range of colors, Céza also began to experiment with the fragmented br strokes and divided tones of the Impressionists

And yet, Cézanne was never wholly Impressionist in the sense that his goal was no capture the fleeting, ephemeral effects of light. was after something more permanent. As he c said, "I want to make of Impressionism so thing solid and durable like the art of the mu ums." Whereas Monet and Renoir were fasci ed with the social interactions of daily life, Pissarro documented the toil of the comm laborer, Cézanne seemed to distance himself fi the rituals and leisure activities of his fellow m

A painter of the South

To a great extent, Cézanne's southern orig defined him as a painter. Northern France h mild, changeable climate; the sky is often gray, landscape a delicate mélange of greens and blu The Midi, Cézanne's country, is a land of ha sunlight and dramatic landscapes defined by p trees, red earth, and rocky outcroppings. Cézanne wrote to Pissarro: "The sun here is frightful that it seems to me the objects are houetted not only in white or black, but in blue, brown, violet." In Provence, Cézanne's pal took on new luminosity.

Throughout his life, certain places near Aix h strong associations for Cézanne, and he returne them again and again in his paintings: his hol stead Jas de Bouffan; the coastal landscape L'Estaque; a mysterious house in the Tholo

ortrait
82, Oil on canvas,
tmuseum Bern.
man who paid so little heed appearance, Cézanne used vn face as subject matter surgly often. Twenty-five self-aits are known, and they are g the artist's most disconcert-orks. In this arresting example, most rabbinical look of the with his felt hat and dark , is agitated by the quivering of abrupt brushstrokes.

woods called the Château Noir; and the towering presence of Mont Sainte-Victoire, which dominated the landscape for miles around. The quarries at Bibémus, a few miles north of the city, also provided inspiration. Late in life, he rented a small house there where he would store his canvases and paints, heat up his lunch, and sometimes even stay the night. The lure of nature was so strong for Cézanne that he would disappear for days at a time, often ping in peasants' barns, caring little for his fort, only for the canvases he would paint.

aint a head as I paint a door."

Throughout his career, Cézanne painted por-s of the people around him. Never comfortable those outside his immediate circle, he often se Hortense or their son, Paul, as a model. On r occasions, he painted the peasants and labor-of his native Provence.

Other sitters came from different walks of however: the critic Gustave Geffroy; his deal-Ambroise Vollard; and his first important col-or, Victor Chocquet. In the end, though, it the common people he preferred — some of ast paintings he worked on are of Vallier, his lener.

Cézanne treated the human figure as an inan-te object. "Be an apple," he would bark at his ects, insisting that they remain motionless if possible, expressionless. "I paint a head as int a door," he said, "as I paint anything." yet both the door and the head vibrate with the *on* of life.

ainter of apples."

Renoir once said that Cézanne painted so ly that he had to use artificial flowers, as real s would wilt long before he had finished paint-them. For the numerous still lifes that he ted, Cézanne set up the arrangements with the of a stage designer — each apple, each nap-placed with an eye to the overall harmony. hin this careful construct, the glowing colors out and the tablecloth, plates, even the table n curiously off kilter, about to shatter the equilibrium of the scene. "He made a living thing out of a teacup," wrote the Russian painter Kandinsky.

It is the apples, though, rather than the teacups, that we think of when we picture a Cézanne still life. Poet Rainer Maria Rilke was so entranced that he wrote to his wife that the artist had achieved "the painted apple for all time."

The legend takes shape

After his first one-person show at Ambroise Vollard's Paris gallery in 1895, people began to take notice of Cézanne. His paintings, rejected for so many years by the official institutions of Paris, were now displayed at the Salon des Indépendants and, from 1904, at the Salon d'Automne.

But even before this, many younger painters, as well as collectors, came to know Cézanne's work through Père Tanguy, the paint merchant. In exchange for pigment, Cézanne had given Tanguy many canvases, and when painters stopped by his Paris shop, Tanguy would take them out of storage and display them proudly. It was there that Gauguin and Van Gogh first encountered Cézanne's paintings.

With little head for business, Cézanne handed over to his son, Paul, that side of his career. And by all accounts, the son was quite competent at introducing his father's work to dealers, negotiating sales, and, in general, taking care of the growing market for the aging artist's paintings and watercolors.

As Cézanne began to spend more time in Provence, working out of his hillside studio at Les Lauves, several young artists made the pilgrimage south to spend time in the presence of the great artist.

Cardplayers
1893-96, Oil on canvas, Musée d'Orsay, Paris.
Bequest of Comte Isaac de Camondo (R.F. 1969).
The largest and most complex of Cézanne's five paintings on this theme is at The Barnes Foundation in Merion, Pennsylvania. This version is much simplified, with only two peasants sitting at a table, absorbed in a card game. Always preferring to paint ordinary folk, Cézanne lent the scene a simple dignity.

Philadelphia Museum of Art Through the Years

1970 **A major exhibition of paintings by Vincent van Gogh draws record crowds to the Museum.**

1977 **The Museum's armory is established with the impressive bequest of arms and armor from Carl Otto von Kienbusch.**

Burgonet, attributed to Anton Peffenhauser, c. 1570, Etched and gilded steel, Bequest of Carl Otto von Kienbusch.

1982 **To oversee the Museum's collections and exhibitions, Anne d'Harnoncourt is named The George D. Widener Director. Robert Montgomery Scott is appointed to the newly created position of Museum President and CEO, which carries with it responsibility for the Museum's financial and operational welfare.**

Anne d'Harnoncourt and Robert Montgomery Scott

1985 **The Museum's Old Master print collection is nearly doubled by the generosity of Muriel and Philip Berman, with whose help some 2,500 drawings and more than 42,000 prints by European masters of the 16th to 19th centuries are acquired from the Pennsylvania Academy of the Fine Arts.**

Philadelphia Museum of Art Through the Years

1986 The Henry P. McIlhenny Collection of 19th-century French furniture and paintings is bequeathed to the Museum. Highlights include Ingres's *Portrait of the Countess of Tournon.*

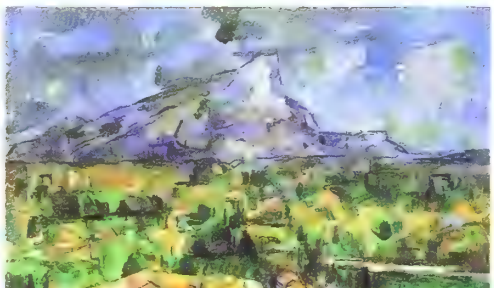
Armchair, France, c. 1825-35, Elm, purpleheart, The Henry P. McIlhenny Collection in memory of Frances P. McIlhenny.

Jean-Auguste-Dominique Ingres, *Portrait of the Countess of Tournon*, 1812, Oil on canvas, The Henry P. McIlhenny Collection in memory of Frances P. McIlhenny.

1987 Mr. and Mrs. Walter H. Annenberg donate two Cézanne sketchbooks to the Museum.

1995 Senior Curator Joseph J. Rishel conducts research for both his catalogue contribution for the exhibition *Great French Paintings from the Barnes Foundation* and for the *Cézanne* retrospective of 1996.

1996 Triumphantly, the Museum completes a multi-year reinstallation of its entire European collections. [illegible] of 75,112 schoolchildren visit the Museum this year — the highest number in the Museum's history.



Still Life with Curtain and Flowered Pitcher (above)
c. 1899, Oil on canvas, The Hermitage Museum, St. Peters
Cézanne's late still lifes are one of the glories of his oeuvre, combining masterful composition with a free, lyrical touch. Several areas are left deliberately unfinished, and this — combined with the distortions in perspective that tilt the pl of fruit until it seems about to topple — makes the still life appear to be creating itself before our eyes.

Mont Sainte-Victoire (left)
1902–4, Oil on canvas, Philadelphia Museum of Art, The George W. Elkins Collection, E1936-1-1.
Late in life, Cézanne devoted himself to capturing the spirit of great mountain that dominates the landscape around Aix. Eac the 31 known oils and numerous watercolors of Mont Sainte-Vic seen from this angle gives us a slightly different view of the m tain. We sense the changing light and atmosphere that animat the vast landscape, but also perceive its monumental structure

"I glimpse the Promised Land."

The last decade of Cézanne's life was characterized not by a slowing down or falling off in his work, but rather by an ever-more relentless pursuit of his artistic goals. His wife, Hortense, increasingly spent these years in Paris with their son, and there was little to distract Cézanne from the two great themes of his later years: Mont Sainte-Victoire and the bathers. "I work obstinately." He wrote to his dealer in 1903, "I glimpse the Promised Land."

In the late paintings of Mont Sainte-Victoire we see Cézanne in full mastery of his art. In radiant canvases shot through with blue, lavender, green, and gold, nature and art are perfectly integrated. The touches of color, distributed evenly over the canvas, create a unified image that shimmers with suppleness and life.

The subject of nudes reposing in a landsc had captured Cézanne's imagination since youth. Late in life, he devoted himself to captu the mythical, eternal essence of this the Cézanne's women have a grandeur and seri ness that imbue their actions with monumen ity. The landscape provides a fittingly maje stage for the enigmatic scene.

"The father of us all"

Cézanne once said of the state of paintin the late 19th century, "There are no longer any painters. Monet gave us his vision. Renoir the women of Paris. Pissarro was very clos nature. What came after doesn't count, consis only of practical jokers who feel nothing, perform acrobatics." Had he lived further

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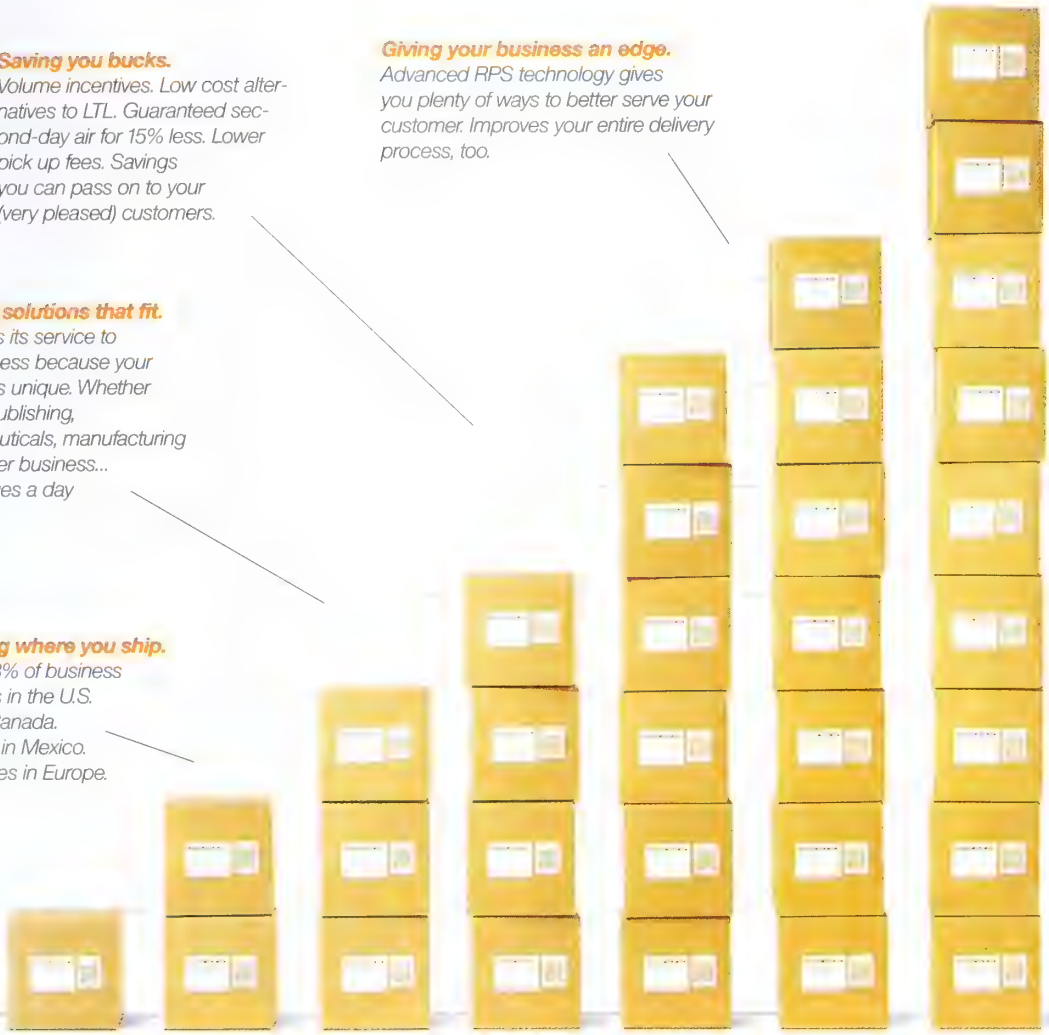

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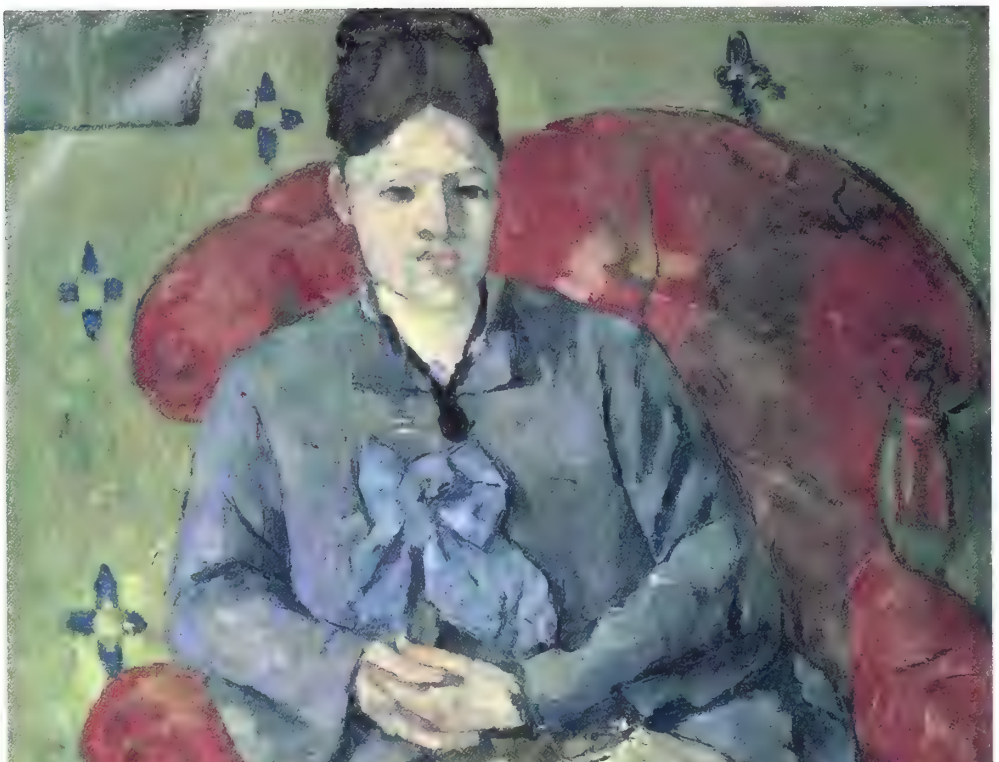

Madame Cézanne in a Red Armchair

1877, Oil on canvas, Museum of Fine Arts, Boston. Bequest of Robert Treat Paine II.

Hortense Fiquet was Cézanne's mistress, the mother of his son, and, eventually, his wife. She was the artist's most frequent model (26 paintings of her are known). The stunning harmony of blues and greens in this portrait is set off by the vibrant red mass of the armchair.

this century, perhaps he w
have revised his opinion.
tainly, many of the great ar
who came after him clai
to have been strongly in
enced by the master from

Monet, Pissarro, De
Renoir, Gauguin, and Ma
all owned works by Céza
during his lifetime, and
work was later to affect
luminaries as Picasso,
nard, Malevich, Paul K
Braque, Kandinsky, Ma
Duchamp, and Jasper Jo
Gauguin said of his paintin
Cézanne, "It's the apple o
eye, and except in case of
necessity, I'll keep it unti
last shirt's gone." His fr
Pissarro described him as
of the most astounding
curious temperaments of
time...who has had a very
influence on modern art.

For the founders of mo
art, Cézanne offered a new
of seeing, one that assimi
the lessons of Impressio
but made of it something
umental and lasting. Pic
went so far as to call him
father of us all," and for Ma
he was "a kind of benev
god of painting."

What strikes us today a
Cézanne, as we look at a
time's work and learn so
thing of how he lived, is
unwavering steadfastness o
resolve. He felt himself ca
of achieving something e
ordinary, and everything i
life became subservient to
goal. When met with reje
and misunderstanding
forged ahead, never allo
himself to be distracted.
life devoted entirely to ar
left us a legacy so rich th
marvel at it afresh each
we see his work. This exhib
gives us an opportunity to
once more in the art o
imcomparable master.

Judith West is executive editor of *Arts*, a monthly arts and culture m zine based in Philadelphia.

Cézanne is made possible in Philadelphia by Advanta.

he exhibition has been jointly organized by the Philadelphia Museum of Art, the Réunion des Musées Nationaux/Musée d'Orsay, Paris, and the Tate Gallery, London. Additional support has been provided by grants from The Pew Charitable Trusts and the National Endowment for the Arts, by an indemnity from the Federal Council on the Arts and the Humanities, and by a generous contribution from Gisela and Dennis Alter. USAir is the official airline for the exhibition. NBC 10 WCAU is the media sponsor.

CÉZANNE

Exhibition Information

Exhibition Days and Hours

May 30–September 1, 1996

Tuesdays and Thursdays, 11:00 a.m.–5:00 p.m.
(Last tickets issued for 3:30 p.m.)

Wednesdays and Fridays, 11:00 a.m.–8:45 p.m.
(Last tickets issued for 7:30 p.m.)

Saturdays, 9:00 a.m.–5:00 p.m.
(Last tickets issued for 3:30 p.m.)

Sundays, 9:00 a.m.–7:00 p.m.
(Last tickets issued for 5:30 p.m.)

Ticket Information

Tickets may be purchased at the Museum during regular hours, or by telephone at (215) 235-SHOW (235-7469) from 9:00 a.m. to 7:00 p.m., seven days a week. Advance tickets are strongly recommended. A service charge of $2.75 per ticket will be added to telephone orders.

	Wednesdays–Sundays	Tuesdays Only
Adults	$12.50	$10.50
Seniors age 62 and over	9.50	8.00
Students with ID	9.50	8.00
Children ages 5–18	9.50	8.00

Children under 5 admitted free. No strollers, please.

Cash, MasterCard, Visa, and American Express are accepted for payment. No checks or mail orders accepted. Tickets are nonrefundable. No discounts are available.

Group Sales

Special adult group packages for 15 to 100 persons may be arranged through the Group Sales Office at (215) 684-7863. Evening events are available to Corporate Partners and nonprofit groups through the Special Events Office at (215) 684-7713.

For Philadelphia visitor information, call (800) 752-8206.

Reaching Philadelphia

Amtrak Discount

Regular Amtrak service to 30th Street Station, Philadelphia, is available from New York, Wilmington, Baltimore, Washington, D.C., and other major cities. Amtrak offers a 10 percent discount on round-trip regular or excursion fares for travel to Philadelphia during the **Cézanne** exhibition. Call 1-800-USA-RAIL and ask for fare order X-652, or call your travel agent.

USAir Discount

USAir is offering special fares on tickets to Philadelphia for all domestic flights as well as international flights from France, Canada and Germany. To book your tickets, call your local travel agent or USAir at 1-800-334-8644.

Hotel Packages

Hotel packages available May 29–September 1, 1996, will include:

- One night/two days accommodations for two
- Complimentary breakfast for two
- Complimentary parking
- Two VIP tickets to the **Cézanne** exhibition
- Two tickets to the Museum of American Art of the Pennsylvania Academy of the Fine Arts
- Two Phlash city transit passes
- 25 percent off same-day tickets to Mann Music Center's PNC Bank Summer Series with the Philadelphia Orchestra.

Use your Advanta Visa or MasterCard and receive 20 percent off your second night. This offer is also available to Colonial National Bank Visa and MasterCard cardmembers. To apply for the Advanta Card, call 1-800-400-9766.

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Holiday Inn Select	$149	215-561-7500
The Latham Hotel	$169	215-563-7474
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(Mon-Thurs)	$275	
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Depending on the level and type of gift, corporations are eligible for the following benefits:

- Corporate recognition on a plaque in the Museum's entrance foyer, as well as in the Annual Report and Corporate Programs brochure.
- Listing in an annual full-page advertisement in a high-circulation news publication. This year's ad will be placed in the *Wall Street Journal*, the *New York Times*, the *Philadelphia Inquirer*, and *Business Week*.
- Executive privileges and networking opportunities that include complimentary memberships and invitations to private, evening CEO events and special exhibition previews.
- Special travel/hospitality benefits for New York Corporate Partners.
- The exclusive opportunity to entertain clients at the Museum during evening hours for cocktail parties, dinners, and receptions — a particularly special benefit in the context of the *Cézanne* exhibition.
- Employee benefits including a "Member for the Day" event at which employees receive free or discounted admission and discounts in the Museum Shop and [illegible] Cafe.

For more information on the Museum's corporate programs, please call [illegible] 7755

A Conversation with Dennis Alter

Dennis Alter, Chairman of Advanta, a leading consumer financial services company, and the major sponsor for the Cézanne *exhibition in Philadelphia, has been an avid supporter of the arts for many years. We talked with him about art, corporate sponsorship, and Cézanne.*

As a businessman, do you see it as a corporate responsibility to contribute to the arts in your community?

I have been fortunate to have a business enterprise in Advanta that has been very successful for the last decade. I think it would be improper for us not to share our good fortune by giving something back to the community. Many employees at all levels of our company are involved with nonprofit organizations in the communities where we operate. They volunteer their time, participate in fund-raising efforts, and generally pitch in wherever they're needed. As for supporting the arts, it's not only about putting a painting on a wall. It's the entire notion that we're part of a community and that we can help to make it a better place.

What was it about the *Cézanne* exhibition in particular that made you want to sponsor it?

In a corporate sense, it allows us to showcase our diversity. We're not merely a credit-card company. We match people with a range of credit products, and we're beginning to use those matching competencies for non-credit services as well. From a business perspective, also, the exhibition is a great opportunity to strengthen our relationships with current and potential customers and shareholders while helping to support the Museum.

On another level is the fact that Cézanne was quite unusual in that, having been spurned by the big boys in the Salon, he decided to retreat to an out-of-the-way place to pursue his work. Eventually, Paris came to him. Cézanne went his own way. He broke with tradition and tremendously influenced many artists. With a bit of hyperbole, I liken his life to some of the things Advanta has done. We're in an industry that's seen as being very traditional, yet our iconoclastic approach has produced results that are surpassed by only a few companies.

Tell me about Advanta's current expansion.

This past fall, we started issuing the first price-competitive credit cards in the U.K. and we're building an internationial group to look at a number of other countries. Our CEO, Pete Hart, the former CEO of MasterCard International, has tremendous knowledge of key international markets. We're doing very well domestically. We now have more six million customers and have continued to su record earnings over a seven-year period.

What are your earliest memories of the Philadelphia Museum of Art?

I remember piling into a yellow bus with Klein's fifth-grade class for a field trip to the M um. My earliest memory was seeing the g *Prometheus Bound* by Rubens and being c pletely mesmerized.

Do you surround yourself with art in your office?

Yes. In fact, in my office I have a T-shirt displ that was painted by my daughters when they were and seven, as well as a Rothko and a Diebenko

How did you become involved with the Museum as a Trustee and member of the 20th-Century Art Committee?

I've been a Trustee for a couple of years, prior to that, I was a very interested outsider, a quent visitor, and a supporter. It happened thro my friendship with [Museum Director] A d'Harnoncourt and [Senior Curator of Europ Painting and co-curator of the **Cézanne** exhibit Joe Rishel. They both combine vast knowle incredible enthusiasm, and great persuasive sk

What kind of impact will this exhibition h on Philadelphia?

From an economic development standpo it's expected to bring more than $20 million in enue to the city. But we're also working to ext the reach of the exhibition by creating some n traditional channels for access. For example, w funding the Museum's development of an e cational Cézanne CD-Rom for children, un writing a national PBS broadcast on Cézan works, and coordinating a contest for young art Bringing an exhibition of this magnitude and iber to Philadelphia will have a significant im on our region, and we're delighted to be playi part in making it possible.

Still Life with Curtain and Flowered Pitcher (detail), c. 1894–95, The Hermitage Museum, St. Petersburg

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Cézanne at the Philadelphia Museum of Art
May 30 – September 1, 1996

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ITSMARTING A TUMOR'S TRICKY SHIELD

LECULAR BIOLOGISTS IN ifornia have genetically gineered a novel treat- nt for tumors. It works removing the molecular ak" that tumor cells ar to evade destruction the immune system. Certain tumor cells hide secreting a substance ed transforming growth tor-beta, or TGF-B. It ds with the immune sys- n's T-cells, making them vailable to attack the tu- r. Researchers at the iversity of California at Los Angeles and the Sidney Kimmel Cancer Center in La Jolla, Calif., used genetic engineering to make rats produce a mirror-image, "anti-sense" version of the RNA precursor to TGF-B. The mirror-image RNA links up, like a zipper, with the RNA of the tumor's TGF-B. That blocks production of TGF-B, and thus exposes the tumor to attack by the immune system's T-cells.

Researchers eliminated virulent brain tumors in 11 rats using the technique. The National Institutes of Health has approved testing on people with brain cancers, and Food & Drug Administration approval is expected soon. The team hopes to begin the tests later this year.

Cancers of the breast, lung, colon, and prostate also secrete TGF-B and may respond to similar techniques, says Dr. Robert Sobol, a researcher at Kimmel. Immune Response Corp. in Carlsbad, Calif., has obtained an exclusive license to the technology.

David Graham

THE FAULTS LIE . . . EVERYWHERE

MIDWEST ISN'T AS SEISMICALLY STABLE AS PEOPLE MAY , says University of Illinois geologist Stephen Marshak. entral U. S. seems to be covered with a rough grid of lines, Marshak has found—some going northwest to east and others running southwest-northeast. Think of , he says, as 1 billion-year-old stretch marks in the 's crust. Marshak discovered the pattern by examining rical records of quakes and looking at core samples from d water-well drilling. The chance of a quake is greatest e fault lines cross, he says—such as in the New Madrid of southeastern Missouri.

rshak concedes that the Midwest isn't nearly as quake- as Japan or California. But he says it would be wise to der quakes when devising building codes. When they do e Midwest, quakes shake a wider area because the ck is more rigid and unified than California's. Quakes in Madrid in 1811-12, not since equalled, cracked chim- in Chicago and rang church bells in Boston. □

TINKERED GENES, CLEANER CLOTHES?

SINCE THE 1960S, DETERgent manufacturers have used enzymes from soil bacteria to break down dirt and protein-based stains. But the enzymes don't function as well in a washing machine as they do in the backyard. Take the enzyme subtilisin. Water treated by softeners pulls calcium away from subtilisin, making it unstable and inactive. So detergent makers are forced to add costly stabilizers.

That's where the University of Maryland's Center for Advanced Research in Biotechnology comes in. With partial funding from Procter & Gamble Co., a team led by structural biologist Philip N. Bryan focused on calcium. They modified the gene that codes for subtilisin so the enzyme doesn't need calcium to remain stable and active. Procter & Gamble has options to use the university-patented enzyme. □

ELECTRICAL CORD THAT KNOWS WHEN TO SHUT OFF

APPLIANCE CORDS AND extension cords account for half of all electrical fires in the U. S. No wonder: A short in a 120-volt cord can generate enough heat to melt steel. Technology Research Corp. in Clearwater, Fla., has invented an electrical cord called Fire Shield that shuts off power before shorts get serious enough to trigger combustion.

Like other safety cords, Fire Shield spots the electrical leaks that cause shocks. On top of that, Fire Shield also checks the cord's insulation to guard against arcs, which are most often responsible for fires. Conductive sheaths around each wire in the cord can spot an arc from one wire to the other or an arc across a gap in a single severed wire. A circuit inside the wall plug detects faults when they reach a few milliamps—below hazardous levels—and shuts off power within 25 thousandths of a second.

Underwriters Laboratories Inc. approved Fire Shield for indoor use in March after four years of tests in which the cord was burned, chopped, and corroded. The company plans to ship Fire Shield to industrial customers in May and to retailers later this year. □

FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwapr@businessweek.com

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Nancy Frey and fa
are suing SmithKli

MEDICINE

DID DENTURE CREAMS PUT USERS AT RISK?

Through 1990, benzene was present in some products

For 15 years, Robert H. Frey began his morning routine by sticking his dentures into place. Five times during the day he repeated this process, using either Orafix Special or Brace brand adhesives. It wasn't until 1993 that Frey, the retired head of maintenance for an Ohio school district, learned that this mundane ritual might have been deadly. Seriously ill with leukemia, he received a letter from a Philadelphia court notifying him that these denture creams—made by SmithKline Beecham PLC—had once contained benzene, a proven carcinogen. "He went in the bathroom and threw up," says Nancy Frey, his wife.

Frey died later that year at age 71, and now his family is suing SmithKline for $30 million. The company maintains that the levels of benzene present—measured in parts per million—were far too low to do any harm. But some independent experts disagree. So does the Food & Drug Administration, which forced a recall of the products in 1990. SmithKline is facing similar suits from a handful of other victims or their survivors. And at least four lawsuits have been filed against Schering-Plough Corp., whose Cus Grip adhesive also tained benzene.

How many people be affected by the zene contamination i yet clear, because companies have foug keep a tight lid on i mation. But the num could be significant the more than 35 m denture wearers in U. S., some 10 millio estimated to be reg users of adhesives. day's adhesives are e free of benzene or tain trace amounts lieved to be harm But before the 199 call, Orafix Special, B and Cushion Grip contained enough zene that the FDA warned of a " risk" of disease. Peter F. Infante rector of the Occupational Safet Health Administration's Office of Standards Review, estimates that benzene could cause one extra ca leukemia in every 2,000 people who the creams regularly for five y

FRUITLESS. Despite public assura that the creams were safe, some e tives of adhesive makers did exp concerns that the benzene in the p ucts could pose a problem, accordi a BUSINESS WEEK investigation. Co ny documents disclosed in conne with lawsuits in Tampa and Washin D. C., show that as long ago as scientists at Norcliff Thayer Inc. pu to have the carcinogen removed the company's adhesives. Norcl which later became part of Smi line—and its supplier, GAF Corp., ma major effort to find a benzene-free mulation.

Unfortunately, these efforts pr fruitless until the 1990 recall. Acco to company memos made public i lawsuits, products containing ben remained on store shelves because

The Paper Trail

Memos pried loose by plaintiffs reveal company entists' concerns t benzene

"The data shows that benzene was detected in the Gantrez raw materials in the order of 1400-2600 ppm in the N/T [Norcliff Thayer] finished products in the order of 350-600 ppm." — DONALD SPIEGEL, [illegible] MAY 1

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RIGHT TO KNOW: *Ondrejack, whose father died from T-cell lymphoma, says the adhesives were dangerous and Schering-Plough should alert the public*

of such factors as lack of a palatable replacement in a competitive market, strains between a supplier and a customer, and corporate upheaval. Only when New York State authorities were contacted by an anonymous tipster were the products withdrawn and substitutes quickly marketed.

The benzene saga was pried loose by several plaintiffs' attorneys despite years of resistance and a reliance on secrecy orders by corporate defense lawyers. The story began around 1970, when McKesson Corp., through its Norcliff arm, began marketing the denture adhesive Brace. The product used a resin called Gantrez S-97, a fast-sticking polymer made by chemical maker GAF. Benzene was a key ingredient in the resin's manufacture. At the time, benzene—a solvent—was used in hair sprays and dry-cleaning solutions. "People routinely used benzene in the lab to wash their hands," says Daniel Mufson, a PhD chemist and onetime head of product development for Norcliff.

Indeed, in 1975, when Norcliff was sold to Revlon Inc., the company even introduced another denture adhesive, Orafix Special, made with the same resin. But signs of trouble began to appear that year: The National Institute for Occupational Safety & Health classified benzene as a suspected carcinogen. The chief worry among regulators was that workers inhaling benzene fumes could develop leukemia, a link suggested by doctors in 1928 and strengthened by research published in later years.

As Norcliff products grew in popularity, more damning data began to emerge about benzene. In 1977, Infante published a seminal study on leukemia in benzene workers, and the Environmental Protection Agency added benzene to its list of hazardous pollutants regulated ur the Clean Air Act. Now, there is l doubt about the danger. "We know certain that benzene causes mult forms of leukemia," says Infante.

At the time the EPA acted, the cerns surrounded the inhalation of borne benzene—not the ingestion form encased in a solid denture cre But the mounting bad news troul some scientists and staffers at Nor and GAF. Norcliff memos made pu in the lawsuits show that the comp commissioned tests in 1978 that fo 350 to 600 parts per million of benz in both Orafix Special and Brace.

Several Norcliff executives, determ to seek a benzene-free substitute, me mid-1978 with GAF's product manager Gantrez. In a memo, Augi V. Grueneb a Norcliff lab supervisor, asked wheth was prudent to market the benzene-taining adhesives "even if no regula exists to prevent it." Grueneb warned that regulators could ban ingestion of the chemical, a move "would result in either removal of current product from the market, or taining benzene-free Gantrez."

Grueneberg noted that benzene-Gantrez was under development at but said that in the absence of an plicit ban, it was a "low-priority" ject. It would rise in priority, he wr only if Norcliff pressed for a char He added that Richardson-Vicks I the maker of a rival product, Fixod was working with GAF on a benze free substitute.

STRONG DOUBTS. Norcliff executives appear to heed Grueneberg's memo press for the substitute. In a hand-w ten memo dated June, 1978, a Nor executive said he was interested in "ting benzene out—not lowering it." emphasized his feelings by underlir the word "out" three times. Official Norcliff and a related Revlon subsidi USV, wrote GAF to relay the concern

GAF seemed eager to help—and k customers satisfied. "If the custo said 'Get the goddamn stuff out or w quit buying it,' that was an order," calls Louis Blecher, former head of pr uct regulatory compliance for GAF i recent interview. Hewing to the lette the law—even if not going beyond was also paramount, says Blecher. "tended to respond to regulations, fed and state, and ... t in terms of mora and ethics after tha

Strong as the mands within companies we however, no reco

> "Is it prudent to market a product with a potential for small amounts of benzene even if no regulation exists ... ?" — FRED GRUENEBERG, director of chemistry, 1978

intel inside pentium

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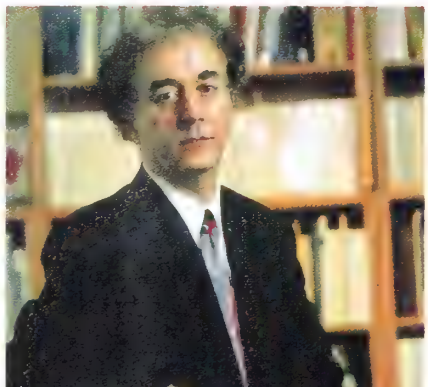
have emerged to show that company executives alerted consumers or regulators to the problem. Mufson recalls that the idea of pulling the products off the shelves did come up at Norcliff but was never acted on. He suggests that the strong push by him and by other research and development executives fell by the wayside when an adequate substitute couldn't be found. A decision was made to continue marketing the current adhesives. "It wasn't known how strong a hazard it was," but, he says, "I remember being proactive about this."

Developing a substitute that worked as well as the benzene-containing variety seemed constantly just out of reach. One substitute mentioned in a 1979 memo was prone to hardening during manufacture. A year later, problems with viscosity hobbled another potential replacement. Reports of odor, color, and oil-separation problems had Norcliff officials worried that consumers simply wouldn't accept the substitutes, a risky problem when Orafix Special and Brace were battling mightily in the marketplace with the likes of Fixodent.

AMNESIA. Staff moves and changes in corporate ownership also seem to have interfered with efforts to find a substitute. In the late 1970s, Norcliff's adhesives research effort began shifting from Tuckahoe, N.Y., to St. Louis. In 1985, Revlon, Norcliff's parent, surrendered to a hostile takeover by Ronald O. Perelman. Later the same year, Perelman sold Norcliff to Beecham PLC. The changes seemed to produce some corporate amnesia. Keith Lienhop, a scientist who worked for Norcliff in St. Louis from 1984 to 1989, recalls getting scant information about prior research efforts to reformulate or replace the Gantrez resin. Lienhop headed an effort to improve the denture adhesives and, later, to find a replacement for Gantrez. But he says he didn't know about the benzene problem until about 1987. "The people in my lab were unaware of the stuff being in there," says Lienhop, angry now about being kept in the dark about a potential health hazard.



'We know for certain that benzene causes multiple forms of leukemia'

OSHA'S PETER INFANTE

In 1987, OSHA tightened the workplace standard for average airborne benzene exposure from 10 parts per million to 1. But again, there was no standard for solid products, such as denture cream. Meanwhile, the market for Gantrez resin was expanding. Shortages developed later in the 1980s as Gantrez made its way into at least one brand of toothpaste. The resulting benzene level in the toothpaste was far lower than levels found in the denture adhesives.

"Either GAF refuses to provide us with information which is absolutely necessary to us if we are to remain a customer of theirs or their operation is so inexcusably and incompetently run that they honestly don't know."

KEITH S. [illegible]

The tight supply of Gantrez spawned tension between Norcliff and GAF. Norcliff tried to find out how Gantrez differed from experimental benzene-free alternatives, but GAF wouldn't say, according to a 1987 memo from Lienhop to a superior. Lienhop contended that GAF officials "have been deliberately uncooperative . . . even contradicting themselves on occasion." A GAF spokesman says now that the company "worked closely in the deve ment of these products" with custo and "promptly provided them wit relevant information at our disposa

Again, though, benzene seeme lose priority in a corporate shuffl 1989, SmithKline and Beecham me and the reformulation efforts were s ed from St. Louis to Parsippany, Beecham even retired the Norcliff n SmithKline Beecham continued to ket the denture adhesives.

WHISTLE-BLOWER. It wasn't until 1990 that the issue surfaced again— time with far greater ramifications anonymous whistle-blower sent alarming note to regulators at the York State Consumer Protection B Residual benzene turned up in a s of denture adhesives that the writ the unsigned letter claimed to b volved in. "Our study was abruptly celed and we were ordered to des all records," the writer said. "I am pealing to your good offices to help these highly toxic adhesives off shelves. I cannot go public for fe losing my job."

New York State regulators and FDA tested the denture creams. Fi the 10 brands on the market turned to contain benzene. Orafix Special Brace headed the list, with 191 and parts per million of benzene, respec ly. Schering's Cushion Grip follo with 65 parts per million. Procte Gamble's Fasteeth and Fixodent far lower, with just 29 and 12 p per billion, respectively. During mid-1980s, Procter & Gamble, w bought Richardson-Vicks, had add step during processing tha moved most of the ben from Gantrez. "There was dence this chemical could problem and should be e nated," says retired Rich son-Vicks Executive President John R. Mark

The FDA quickly r that no detectable am of benzene would be tol ed in the adhesives. companies chose not fight. Instead, they "volunta recalled their products, and they insist that they posed no risk. "W not believe there was any health ha associated with the benzene," SmithKline spokesman Jeremy He feld. He adds that SmithKline refo lated the adhesives to steer clear o ticipated government regulations, because the company thought ben presented any danger.

By April, 1991, SmithKline had b

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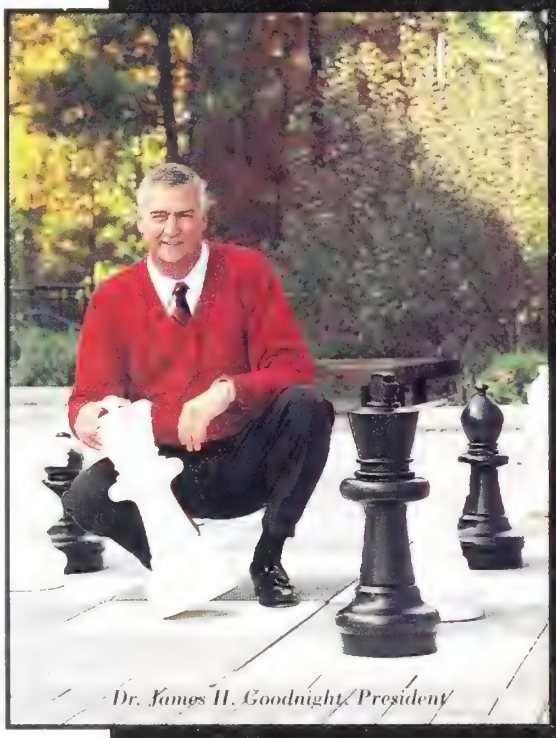

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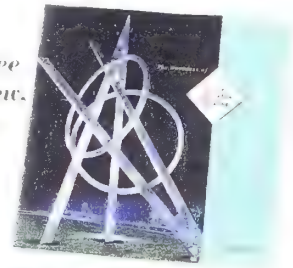

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Join today, and plant your Trees for America!

The National Arbor Day Foundation

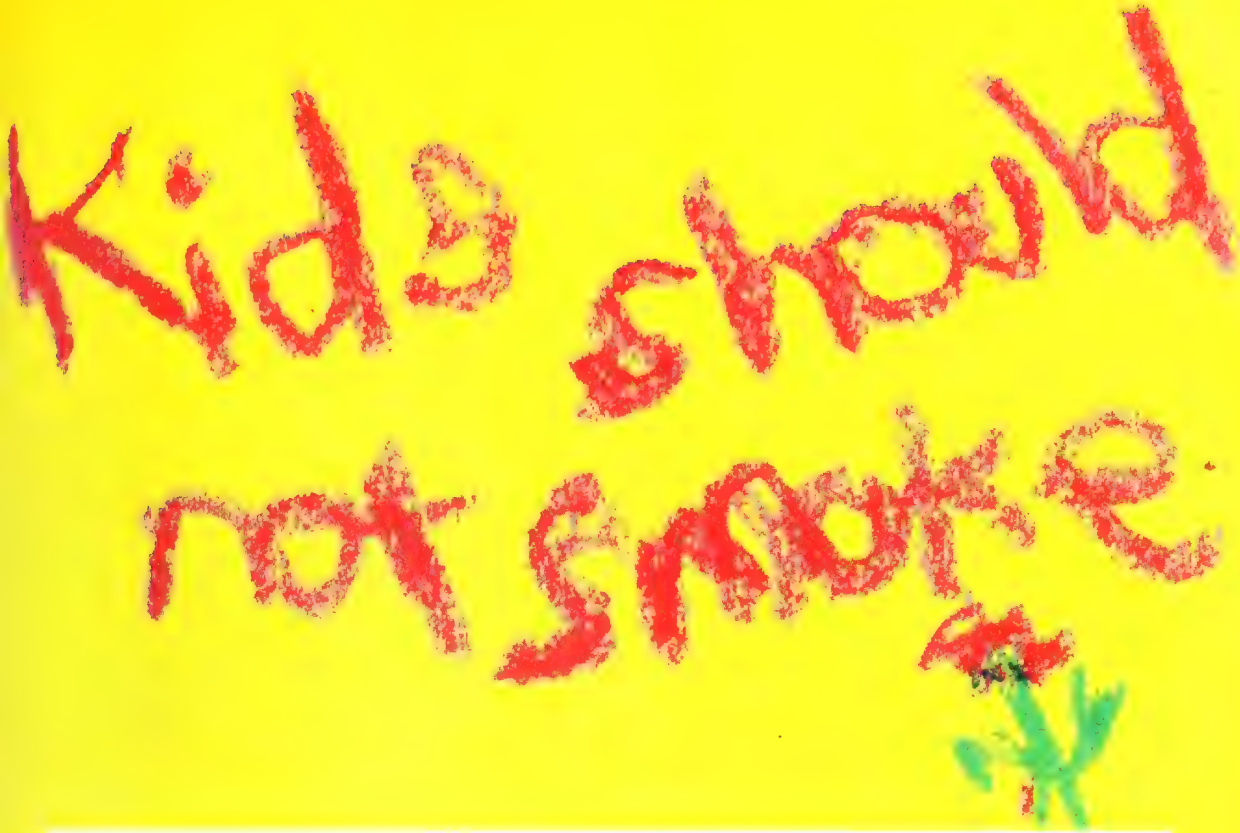
using an alternative formulation of
trez that reduced the amount of be
in Orafix Special to something
detectable levels. The product, hov
has faded in the marketplace. S
Kline sold the Orafix brand last D
ber. The company faced a little-n
class action, which it settled wi
any admission of wrongdoing in
The company paid $11 million in
refunds, coupons, and lawyers' fe
"INJUSTICE." For its part, Sche
Plough says that until it was alert
the FDA in 1990, it wasn't aware
benzene in its Cushion Grip (which
n't contain Gantrez). Schering pro
switched suppliers of an ingredien
was the source of benzene and p
products back on the market. Sch
has since settled two of the four
suits brought against it, agreeing i
case to pay just $1,000. But a New
sey case, on behalf of a 70-year-old
teret man who died of T-cell lymp
in 1991, could be far more trouble
The victim's son, Richard Ondrejack
the company is "doing a tremendo
justice" by not alerting the public
adhesives' dangers. Schering, hov
insists that there was too little be
to cause problems.

The dispute will be tough to re
because no one can be sure how
risk the benzene posed. Some
like Frey, applied the adhesives h
and regularly. Others used less. In
cases, exposure might have exc
what is now allowed by workpla
standards. For light users, expo
were presumably lower. Another
is that the effects of benzene exp
vary in different individuals.

Plaintiffs' experts blame every
from severe anemia to leukemia
benzene. But the picture is often c
cated. Frey, for one, smoked, dran
cessively, and in his work as a ja
was around a lot of other poten
toxic chemicals. Company-paid ex
also insist that too little of the
would have been absorbed by use
cause any problems.

As tough as it is to prove a li
each case, many scientists now c
with the worries some Norcliff rese
ers raised 18 years ago. Says OSHA
fante: "I find it rather shocking
they could allow such a high conce
tion in their products up until 1990
benzene should have been remov
the 1970s." Questions about the
gers and about who is accountabl
plague the manufacturers and u
numbers of victims for years to c

By Joseph Weber in Philadel
with John Carey in Washington



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Action Against Access.

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Special Report

HOW HIGH CAN CEO PAY GO?

In a year of downsizing and layoffs, compensation rose by 30%, on average

When United Technologies Chairman Robert F. Daniell strolls into the Carlton Hotel in Washington on Apr. 23 for his company's annual meeting, he should expect to see nothing but a sea of happy faces.

After all, the company's stock outpaced the market last year, throwing off a return of 55% for shareholders in 1995 alone. Net income rose 28%, to a near-record $750 million on $22.8 billion in sales. So no one is likely to grouse about the $11.2 million in pay Daniell got last year. Nor is anyone likely to complain about the huge pile of options—valued at $6.7 million—handed over to CEO George A. David.

ANGRY VOICES. Yet back in the factories and offices of the far-flung conglomerate, some employees are stirring—as they are at companies large and small across the country. In an era of massive downsizings, stagnant wages, and ever more burdensome workloads for layoff survivors, employees are feeling disenfranchised, discouraged, and angry.

Listen to a United Technologies Corp. manager in the trenches who has seen his company downsize by some 30,000 employees in the past six years: "I used to go to work enthusiastically," he complains. "Now, I just go in to do what I have to do. I feel overloaded to the point of burnout. Most of my colleagues are actively looking for other jobs or are just resigned to do the minimum."

Despite consistently good performance reviews, this $64,000-a-year manager with nearly two decades of service to e company has averaged a mere 4% pay raise in each of the ast three years. "At the same time, the CEO is paid millions, nd his salary is going up much higher than anyone else's," he ds. "It makes me angry and resentful."

ook out. The latest CEO pay numbers are likely to add to the fire. In this election year, Presidential candidate

Pat Buchanan has already helped to fan an antibusi backlash. "The tinder for mass resentment of business e is piling up," warns Labor Secretary Robert B. Reich. only awaits a new demagogue to come along and drop match. Buchanan may be fading, but not the anger that fu his candidacy."

The average salary and bonus for a chief executive rose 18% last year, to $1,653,670—slightly above the 15% gai corporate profits. But throw in gains from long-term c

ation such as stock options, and the CEO's average total climbed 30%, to $3,746,392. The boss's pay not only outped last year's 2.8% inflation rate, but also the pay of white-collar professionals, who averaged a 4.2% gain, and ctory employees, who received a 1% raise.

ose are the primary conclusions of BUSINESS WEEK's annual Executive Pay Scoreboard, compiled with Stan- & Poor's Compustat Services, a division of The Mc- -Hill Companies. The survey examines the compensation of the two top-paid executives at 362 of the largest companies.

In an analysis linking CEOs' pay with performance over a three-year period, BUSINESS WEEK found that Berkshire Hathaway Chairman Warren E. Buffett and Avon Products CEO James E. Preston gave shareholders the most bang for the buck (page 105). Who delivered the least? Walt Disney Chairman Michael D. Eisner and Stanley P. Goldstein, CEO of Melville Corp., won this dubious distinction.

Some maintain that the ever-growing pay packages of the

corporate elite are proof that the American dream is alive and well. "Like it or not, we have a system in this country based on stars," says Arnold S. Ross, of New York pay consultants Hirschfeld, Stern, Moyer & Ross. "If you produce, you get paid the big bucks. Right now, the system is working better than anywhere else in the world. More than ever, pay is tied to performance."

That certainly seems true. CEO pay is soaring at a time when U.S. companies have become vastly more competitive and efficient in world markets. Rebounding corporate profits pushed stock prices to new highs, enriching corporate chieftains and investors alike. The system has doled out rich rewards—but it can and does impose hefty penalties on those who don't perform. More than ever, the boss is likely to lose his job and his perks when he doesn't deliver the profits shareholders expect.

While workers express anger over rising CEO pay, many have benefited from the runup in stock prices through their own investments in mutual funds and their pensions and saving plans for retirement. And more companies are handing stock options and incentive bonuses to workers further down in the organization.

Special Report

For proof that pay for performance is working, look no further than the top of this year's list of best-paid executives. Next to traditional big earners such as Travelers Group Inc.'s Sanford I. Weill, who made $49.8 million last year, or General Electric Co.'s John F. Welch Jr., who earned $22.1 million, Lawrence M. Coss is a virtual unknown. Yet the chairman of St. Paul-based Green Tree Financial Corp. garnered $65.6 million last year—a tidy sum for a CEO of a consumer-finance company with net income of only $254 million.

But look at Green Tree's performance: Its market value has grown to $3.6 billion from $330 million in the past five years. Earnings per share have grown at an annual rate of 44% since 1990. Coss's compensation, the company insists, is a near-perfect example of how pay for performance should work.

MANY SHARES. Nearly five years ago, directors set Coss's annual base salary at only $400,000 and linked his bonus—paid largely in company stock—directly to the company's pretax earnings. As income zoomed, so did Coss's pay. "The only way Larry could get substantial compensation was to deliver outstanding performance," says Robert S. Nickoloff, chairman of Green Tree's compensation committee. "He did, and the performance he delivered went up beyond anyone's expectations."

What about the 3,000 employees who helped Coss squeeze out impressive profits on loans for purchases of mobile homes and motorcycles and for home improvements? Some 118 execs and managers divvied up a $7.2 million bonus pool last year, while about 2,300 other employees each received an extra month's pay that cost Green Tree an additional $3.5 million.

Those bonuses to some 2,400 employees are puny next to Coss's $65.6 million, but at least others shared in some of the wealth. "I suppose there is some grumbling, but if you have a workforce of 3,000 people, you're always going to have 10% to 20% who probably aren't real happy," says Nickoloff.

LAWRENCE M. COSS *Green Tree Financial Corp.* | SANFORD I. WEILL *Travelers Group Inc.* | JOHN F. WELCH JR. *General Electric Co.* | GORDON M. BINDER *Amgen Inc.* | JAM *DSC*

The Top

		1995 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	
1	LAWRENCE COSS GREEN TREE FINANCIAL	$65,580	NONE	$
2	SANFORD WEILL TRAVELERS GROUP	5,607	$44,233	
3	JOHN WELCH JR. GENERAL ELECTRIC	5,321	16,741	
4	GORDON BINDER AMGEN	1,513	19,992	
5	JAMES DONALD DSC COMMUNICATIONS	5,595	13,588	
6	CASEY COWELL U.S. ROBOTICS	2,799	15,770	
7	FLOYD ENGLISH ANDREW CORP.	1,739	15,927	
8	HOWARD SOLOMON FOREST LABORATORIES	611	16,416	
9	STANLEY GAULT GOODYEAR TIRE & RUBBER	2,207	14,343	
10	EDWARD BRENNAN SEARS, ROEBUCK	3,098	13,252	

...And Ter

		1995 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	
1	JOHN McCARTNEY U.S. ROBOTICS	$1,739	$16,153	$
2	MELBURN WHITMIRE CARDINAL HEALTH	617	14,773	
3	R. CLAYTON McWHORTER COLUMBIA/HCA HEALTHCARE	3,108	11,032	
4	JOSEPH SCHOR FOREST LABORATORIES	340	13,533	
5	ROGER ENRICO PEPSICO	340	13,533	

These days, the boss's paycheck is tracking more clo with performance. In the past five years, average CEO pay gone up 92% while corporate profits have risen 75%. So all the hand-wringing over rising executive pay? The rea is simple: Few of these gains have trickled down to hourly wage earners, supervisors, or even the middle m agers. Indeed, a whole swath of workers has been remo from payrolls altogether. Factory worker pay is up only since 1990, while annual layoffs by large companies is 39%, with nearly 440,000 last year alone.

Moreover, many believe that the new generation of l

"The tinder for mass resentment of business elites is pi

L FLOYD L. ENGLISH *Andrew Corp.* | HOWARD SOLOMON *Forest Laboratories* | STANLEY C. GAULT *Goodyear Tire & Rubber Co.* | EDWARD A. BRENNAN *Sears, Roebuck & Co.*

Executives...

	1995 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL PAY
ARD PFEIFFER PAQ COMPUTER	$3,625	$12,493	$16,118
EN MARK GATE-PALMOLIVE	1,985	13,083	15,068
AEL EISNER T DISNEY	8,775	5,996	14,771
RENCE ELLISON CLE	3,343	10,800	14,143
S GERSTNER	4,775	8,452	13,227
RTO GOIZUETA A-COLA	4,880	8,029	12,909
S MORGAN LIED MATERIALS	1,688	10,631	12,319
ARD FISNER GAN STANLEY	4,664	7,251	11,915
ARD ROSENBERG KAMERICA	4,542	7,312	11,854
NE CALLOWAY SICO	3,453	7,966	11,419

CEOs

	1995 SALARY AND BONUS THOUSANDS OF DOLLARS	LONG-TERM COMPENSATION	TOTAL PAY
ERT GREENHILL VELERS GROUP	$12,027	$ 3	$12,030
D POTTRUCK WAB	6,593	5,402	11,995
MAYDAN LIED MATERIALS	1,166	10,351	11,517
IS W. COLEMAN KAMERICA	2,177	9,042	11,219
LO FRESCO ERAL ELECTRIC	2,635	8,517	11,152

DATA: EXECUCOMP BY STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES INC

cost-cutting executives possesses no sense of shared ce—once thought to be a sacrosanct ingredient of lead-. Indeed, the CEOs of the nation's most downsized cor-ons last year displayed a near in-your-face defiance of tion that they should make even the smallest symbol-ring to share the pain. The CEOs of the 20 companies he largest announced layoffs last year saw their salaries onuses jump by 25%, well above the average. Add the of new stock-option packages granted to these same n 1995, and the increases are often staggering.

T Chairman Robert E. Allen, perhaps the most vilified corporate chieftain of the downsizing era, was the only CEO of the 20 who took a cut in salary and bonus. But he got such a large option grant that the total value of his pay package jumped by 143%, to $15.9 million. "People are questioning where his heart is," says an AT&T middle manager who has survived the latest 40,000-person downsizing. "He could have at least made a gesture to show he was feeling the pinch. With this latest layoff, I see less remorse and compassion at the senior executive level."

The notion that CEOs should share the pain is not a popular one in boardrooms, and some worry that the griping over pay and layoffs could hamstring managers. Warns Philip M. Hawley, the director who heads AT&T's compensation committee: "If we move to the point where CEOs are condemned for downsizing their workforces, you are going to induce hesitation and lethargy in moving to the right decisions in a business. That's not in the interest of the economy or individual organizations."

SHORT SIGHT? Others worry that the impressive productivity gains of the past five years—largely the result of restructuring and investments in technology—could evaporate as workers become less trusting of their employers and less committed to their jobs. "There's a lot of rage out there," says Warren Bennis, a University of Southern California management professor. "Unless the private sector finds a way both to make money and reestablish a sense of trust in the workplace, we'll continue to be in trouble. Worried workers do not engage in the kind of creative problem-solving that contemporary business requires."

Most CEOs aren't focusing on that possibility, though. Under relentless pressure from Wall Street and shareholders to prop up the value of their companies' stock, they continue to cut costs and trim payrolls. The money they get for the job is partly a function of a market for talent that richly rewards managers who can deliver stellar returns. It's no different in the worlds of sports or entertainment.

It's not just the best performers who are pulling down top dollar. As companies began to enrich executive stars in the 1980s, pay began to rise for nearly all CEOs, widening the gap between them and others. In 1980, the boss's average paycheck was a mere $624,996—42 times the pay of the ordinary factory worker. By last year, the multiple had grown to 141.

The inexorable upward march of executive pay over the past decade brought storms of complaints from investors, who demanded greater accountability and returns for the money. The clamor forced boards of directors to forge better links between executive pay and corporate performance, largely by shifting more pay into stock options. But it also dramatically altered how executives viewed their own role and that of the public corporation.

Historically, many CEOs bought into the notion that their organizations were responsible to a group of stakeholders, including employees, customers, the community, and shareholders. In the 1990s, the balance has tilted radically in the direction of the investor, outweighing other stakeholder interests, particularly those of employees. "Today, a CEO would be embarrassed to admit that he sacrificed profits to protect employees or a community," says Peter D. Cappelli, a

only awaits a new demagogue to . . . drop the match"

professor at the University of Pennsylvania's Wharton School.

The upshot: "Directors are looking at CEO compensation through the eyes of the investors," says Peter Chingos, a pay consultant who heads up the compensation practice at KPMG Peat Marwick. "The No. 1 performance measurement is shareholder wealth creation."

Top executives have been among the beneficiaries. The stock market's record gains in the past year gave a big boost to CEO pay, and even greater increases are on the horizon (table, page 106). Disney's Eisner is already sitting on a $317.9 million paper gain on his stock options, while PepsiCo Chairman Wayne Calloway could cash in options worth nearly $120 million.

Meantime, the rush to deliver immediate results to shareholders has meant far sharper cost-cutting in many organizations, with few leaders feeling any need to sacrifice. For decades, the military model of leadership counseled executives to lead by sharing the pain and the glory of battle. General George Patton rode in the lead tank, not just for the photo opportunities but because he thought an important part of leadership was to be in the field.

Special Report

That leadership bond has clearly been broken. "Some used to think that the corporation was something of a family and the CEO is the father at the head of it," argues pay critic Graef "Bud" Crystal. "If there isn't enough food to go around, the father feeds his children first. He doesn't sit at a table with great haunches of beef and throw the bones to the kids. Yet that's what is happening at many companies today."

NO EXTRA MILE. Consider Frank A. Shrontz, CEO of Boeing Co. In the same year that Boeing announced layoffs of 25,000, Shrontz pulled down a pay package worth $5.9 million, 73% more than in 1994. While John R. Stafford, chairman of American Home Products Corp., netted $9.7 million in total pay with a new option grant, a 132% gain, 4,000 people were laid off.

Then, there's Wayne R. Sanders, chairman of Kimberly-Clark Corp., which announced that it would shrink its workforce by 6,000 employees after gobbling up rival Scott Paper Co. Sanders' salary and bonus alone climbed 44% last year, largely because of his purchase of Scott—though the co ny's first consolidated earnings report showed inventory p lems that hurt quarterly earnings.

After leading Caterpillar Inc. to record profits last Chairman Donald V. Fites got a 75% raise in total pay, to million. The bonus pool for the company's hourly, manager and salaried employees, however, fell by 25%, to $134.7 lion, because the 1995 targets were set at higher le Caterpillar's 8,700 unionized employees, who had returne work in December after a 17-month strike, didn't qualif payouts. "It's pretty sad that the company can tell can't afford an across-the-board increase for the workers Fites can get a 75% raise," says Jerome Brown, preside the United Auto Workers local in Peoria, where the com is headquartered. "We've made this company competi but there's nothing there for the workers."

And it's not just blue-collar workers who are seet White-collar professionals are getting fed up as well. "Pe are beginning to realize that they are not playing the s game," says Wharton's Cappelli. "If you are a top executi a successful company, you are fixed for life. If you a plant manager and have a banner year, you buy a new c you are a production supervisor, maybe you go to Atl City for a weekend. Others just get to hold on to their This is a key reason for the disenfranchisement of the m manager."

The likely result, warn some, will be a workforce th unwilling to go the extra mile. "Work is done less enthu tically today," says Raphael Schwartz, 40, a white-collar fessional in New Jersey who has been downsized three t in the past 10 years. "Overall, people are less commi They may show outward enthusiasm, but if a better op tunity came along, they would jump in an instant."

Though it's virtually impossible to isolate the impa high CEO pay on employee morale and productivity, som searchers have discovered that pay inequality in organiza leads to less cooperative work environments, higher turn and lower product quality. A 1992 study of 89 organizat that made products ranging from kitchen appliances to t axles found lower product quality in outfits with the wi gaps in pay. "These organizations weren't able to susta

Pay For Performance: Who Measures Up... And Who Doesn't

To see how pay matches up to performance, BUSINESS WEEK uses two measurement systems. One relates to how good a job the boss did for shareholders The other compares what the boss made to how well the company did.

EXECUTIVES WHO GAVE SHAREHOLDERS THE MOST FOR THEIR PAY...

1993–95	Total pay* Thousands of dollars	Shareholder return**	Relative index
1 WARREN BUFFETT Berkshire Hathaway	$942	173%	290
2 MICHAEL BIRCK Tellabs	3,187	797	281
3 THOMAS GOLISANO Paychex	1,314	222	245
4 ANDREW LUDWICK Bay Networks	1,461	228	225
5 WILLIAM GATES Microsoft	1,291	106	159

...AND THOSE WHO GAVE SHAREHOLDERS THE LEAST

1 MICHAEL EISNER Walt Disney	228,439	39	0.6
2 SANFORD WEILL Travelers	114,818	167	2.3
3 JAMES CAYNE Bear Stearns	39,100	44	3.7
4 REUBEN MARK Colgate-Palmolive	35,264	34	3.8
5 LAWRENCE COSS Green Tree Financial	108,593	346	4.1

EXECUTIVES WHOSE COMPANIES DID THE BEST RELATIVE TO THEIR PAY...

1993–95	Total pay* Thousands of dollars	Avg. return on equity	Rela in
1 JAMES PRESTON Avon Products	$2,963	130%	3
2 DANA MEAD Tenneco	6,484	21	1
3 ANDREW LUDWICK Bay Networks	1,461	27	1
4 THOMAS GOLISANO Paychex	1,314	27	1
5 WILFRED CORRIGAN LSI Logic	8,460	19	1

...AND THOSE WHOSE COMPANIES DID THE WORST

1 STANLEY GOLDSTEIN Melville	4,864	–5	–
2 HENRY DUQUES First Data	1,362	11	–
3 JAMES HOUGHTON Corning	5,970	3	–
4 THOMAS O'LEARY Burlington Resources	11,080	1	
5 GERALD LEVIN Time Warner	15,538	–12	

*Salary, bonus, and long-term compensation paid for the entire three-year period **Stock price at the end of 1995, plus dividends for three years, divided by stock price at the end of

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES INC

THE BIG BANGS—AND THE LITTLE FIZZLES

lor the past four years, Avon Products' Chief Executive James E. Preston hasn't eived a raise—by his own uest. In 1991, the board of Avon ducts Inc. froze his $610,000-a-r salary for five years and cut his us payouts. In return, Preston a one-time stock option grant of 50,000 shares.

Preston, leading a turnaround at debt-saddled company, was aim- to restore Avon's credibility on l Street. His bet has paid off, king Preston one of this year's pay-for-performance winners. A INESS WEEK analysis shows that ston delivered the highest return equity (ROE) relative to his pay. rren E. Buffett, the folksy chair- n of Berkshire Hathaway Inc., e shareholders the highest return tive to his pay (table, page 104).

IVAL. Preston cut costs and debt revamped senior management. abandoned unprofitable business- introduced new products, and led company into new markets from ia to South Africa. And he ex- ded incentive pay down the ranks everyone from senior managers to retaries. "We all have a vested in- est in ensuring that we meet our jections," says Preston. Over the t three years, he has earned just million—while his company today sts an exceptionally high ROE of %. That figure is somewhat inflated, because of a small equity base and an aggressive stock buyback program. But there is no gainsaying Avon's revival.

For the second year in a row, Buffett is the CEO who provided shareholders with the best returns relative to his pay. While his $100,000 annual salary is paltry by CEO standards, his fortune rises and falls on the performance of Berkshire Hathaway stock—he owns 40.2% of the company, a stake now worth $16.5 billion. The stock has risen 173% over the past three years.

On the other side of the pay-for-performance ledger, Walt Disney Co.'s Michael D. Eisner gave shareholders the least return for the $228 million he has garnered since 1993. For the past three years, investors have seen their shares increase by 39%. A Disney spokesman argues that the value of Eisner's options—granted a decade ago but mostly exercised in fiscal 1993—should be compared with the more than 1,600% gain in the value of Disney stock since 1984, when Eisner joined the company.

Stanley P. Goldstein, CEO of retail conglomerate Melville Corp., provided the lowest corporate performance relative to his pay. To be fair, the specialty retailing industry has not done well in recent years, and Melville is no exception. To spruce up performance, Goldstein launched a restructuring last year that will split the company, cut costs, and sell unwanted businesses by this summer.

During the past three years, Goldstein earned $4.9 million. A $937 million write-off—part of the restructuring—put last year's ROE at negative 42%. Still, Goldstein is sharing some of the pain: In 1995, his salary was frozen, and he didn't receive a bonus. For some executives, such as Avon's Preston, that sort of sacrifice can eventually pay off—for both shareholders and CEOs.

By Lori Bongiorno in New York, with bureau reports

The Most

AVON CALLING
CEO Preston produced the best return on equity relative to his salary, and he hasn't gotten a raise in four years

BUFFETT'S BACK
For the second year in a row, Berkshire's CEO leads the pack

The Least

THREE-TIME LOSER
Disney's Eisner again gave shareholders the least gain for his pay—$228 million since 1993

JUST A FLUKE?
Melville is now showing a –42% return on equity, but CEO Goldstein is restructuring

workplace of people with shared goals," explains David I. Levine, co-author of the study and a professor at the Haas School of Business at Berkeley.

A study of pay inequality in academia by Jeffrey Pfeffer, a Stanford University B-school professor, showed that the greater the wage inequality, the higher the turnover among faculty in a department. And when wage gaps were made public—as CEO pay is in public corporations—the

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turnover tended to be even greater.

What can be done to prevent the pay gap from having a corrosive impact on companies? First, boards need to be more vigilant in challenging pay packages that reward outsize option grants to CEOs for an uptick in the stock market. More companies should follow the lead of Eastman Kodak Co. and others in requiring top execs to buy stock in their companies so they are in the same boat as shareholders.

NO RELIEF. And CEOs need to be more sensitive to the hardships they are imposing. "A sacrifice at the top, such as voluntarily reducing pay, perquisites, or benefits while the company is in the midst of a painful downsizing, would go a long way toward healing the rift now filled with mistrust and bitterness," believes Pearl Meyer, president of New York-based pay consultants Pearl Meyer & Partners Inc.

For the disillusioned manager at United Technologies, no relief is in sight. He now works nearly 50 hours a week, doing much of the work previously done by downsized colleagues. His company's success may have boosted his pen fund, but it's no guarantor of employment. Yet without measures that the marketplace prodded his bosses to take circumstances might well be dicier. That's the rub: In cent years, chief executives had little choice but to respon the pressure to perform. Today they are enjoying the rew for a job well done. But the jury's still out on what long-run consequences of their actions will be for Amer corporations and their workers.

By John A. Byrne, with bureau rep

Fortunes in the Future

These chief executives still have huge rewards to reap from stock optio that have yet to be exercised. The top 20 treasure chests:

EXECUTIVE/ COMPANY	VALUE OF NONEXERCISED STOCK OPTIONS*	EXECUTIVE/ COMPANY	VALUE OF NONEXERC STOCK OPTIC
MICHAEL EISNER DISNEY	$317,880,000	STEPHEN CASE AMERICA ONLINE	$64,528,3
RICHARD SCRUSHY HEALTHSOUTH	136,449,400	CASEY COWELL U.S. ROBOTICS	61,426,5
WAYNE CALLOWAY PEPSICO	119,358,711	ECKHARD PFEIFFER COMPAQ COMPUTER	58,189,5
CHARLES WANG COMPUTER ASSOCIATES	110,296,129	DANIEL TULLY MERRILL LYNCH	57,262,9
SANFORD WEILL TRAVELERS GROUP	89,944,675	ANTHONY O'REILLY H.J. HEINZ	56,937,5
GORDON BINDER AMGEN	89,096,467	JOHN WELCH JR. GENERAL ELECTRIC	56,575,0
ANDREW GROVE INTEL	86,740,100	JOHN REED CITICORP	56,320,6
LAWRENCE ELLISON ORACLE	86,176,237	HOWARD SOLOMON FOREST LABORATORIES	48,469,7
ROBERTO GOIZUETA COCA-COLA	81,656,250	CHARLES McCALL HBO & CO.	47,613,5
EDWARD McCRACKEN SILICON GRAPHICS	68,871,590	KENNY DUQUES FIRST DATA	45,369,8

*Based on stock price at end of company's fiscal year

DATA: COMPANY REP

Compensation Scoreboard Glossary

If the system worked perfectly, executive pay would rise when the boss delivered the goods for shareholders. And it would fall when corporate performance declined. But it doesn't always happen that way.

In this Scoreboard, BUSINESS WEEK, along with Standard & Poor's Compustat, attempts to measure how closely pay matches performance. The study uses two approaches: It compares an executive's total compensation with the company's total return to shareholders in stock appreciation and dividends over three years. A second comparison measures pay against corporate profitability for the same period. Three years of data are examined to minimize the impact of single-year windfalls.

The Scoreboard companies boast market values that are among the 500 largest in the latest BUSINESS WEEK 1000 for which 1995 compensation data are available. Each company is assigned to one of nine industry groups. Then, each exec tive's pay, the company's total return shareholders, and the company's pr record are measured against the others the group.

Performance ratings are given o when three years of data are available. a scale of 5, 1 indicates the best perf mance; 5 is the worst. The top 15% the sample receives a 1, 25% a 2, 30% 3, 20% a 4, and 10% a 5.

1993-95 PAY-PERFORMANCE ANALYSIS

PAY VS. SHAREHOLDER'S RETURN

TOTAL COMPENSATION is the sum of an executive's salary, bonus, and long-term compensation for the three years.

VALUE OF $100 INVESTED is the yearend 1995 value of a $100 investment in the company made three years earlier, including both share-price appreciation and dividends.

RATING shows how an executive stacks up against industry peers, measured in terms of pay relative to total return to shareholders. The rating is based on an index in which the value of the investment at the end of the three-year period is divided by an executive's total pay and then compared with other executives in the same industry group.

PAY VS. CORPORATE PROFIT

ROE is the company's average return on common equity o the three-year period.

CHANGE IN ROE is the improvement or decline in the co pany's profitability over the 1993-95 period, expressed terms of a percentage.

RATING shows how an executive compares with indus peers in pay for company profitability. The rating is based an index that provides equal weight to the company's over ROE as well as its improvement or decline during the pa three years. Both these measurements are divided by an exe utive's total pay and then compared with others in the sa industry grouping.

Footnotes: †Indicates executive retired in 1995-96 ‡May exclude option gains in earlier years e=estimated NA=not available NM=not meaningful

The Business Week

EXECUTIVE COMPENSATION SCOREBOARD

ANY	1995 SALES $ MILLIONS	1995 ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP. $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
EROSPACE (INDUSTRIAL: HIGH TECH)												
G	19515.0	4.0	F. Shrontz, chmn. & CEO	1656	15	3621*	9963	203	3	8.9	-79.4	4
			P. M. Condit, pres.	932	18	400*	4068		2			4
			*1995 long-term incentives have not been determined.									
AL DYNAMICS	3067.0	15.8	J. R. Mellor, chmn. & CEO	2641	4	2327	23229	170	5	18.5	19.1	4
			N. D. Chabraja, exec. v-p	1307	11	1118	5221		3			3
EED	22853.0	11.4	D. M. Tellep, chmn. & CEO‡	2917	80	1974	8641	240	3	16.1	-32.8	3
N			N. R. Augustine, pres.*‡	2314	24	8246**	15228		4			4
			*Became CEO 1/1/96. **Includes $5.5 mil payout from plan as a result of the merger.									
INELL	14300.0	-13.7	H. C. Stonecipher, pres. & CEO	2015	106	2809	NA	583	NA	4.1	-159.2	NA
AS			J. F. McDonnell, chmn.	1073	-33	1992	5730		1			5
ROP GRUMMAN	6818.0	17.3	K. Kresa, chmn., pres. & CEO	1730	8	480	4941	202	2	9.1	79.0	2
			G. L. Williams, v-p‡	1148*	366	752	NA		NA			NA
			*Includes $424,018 tax reimbursement.									
TRAND	1473.0	16.4	D. R. O'Hare, chmn.	1085	313	0	NA	184	NA	17.8	4.5	NA
			R. H. Jenkins, pres. & CEO	809*	NA	2088	NA		NA			NA
			*Became CEO and joined company 10/1/95. Includes $550,000 signing bonus.									
)	22802.0	18.0	G. David, pres. & CEO	1966	13	335	7900	209	3	15.1	NA	2
OLOGIES			R. F. Daniell, chmn.	1560	-3	9677	22471		5			4
RLINES (TRANSPORTATION)												
	16910.0	5.1	R. L. Crandall, chmn., pres. & CEO	699*	-32	300	3260	110	2	1.8	NA	2
			D. J. Carty, exec. v-p	565*	-26	196	2762		3			3
			*1995 bonus has not been determined.									
AIR LINES	12250.0	20.3	R. W. Allen, chmn., pres. & CEO	1047	117	390	2691	146	1	-14.2	NA	1
			H. C. Alger, exec. v-p	501	89	146	1138		1			1
WEST	9084.9	NA	J. H. Dasburg, pres. & CEO‡	884	4	8694	11347	NA	NA	NA	NA	NA
ES			M. Foret, exec. v-p & CFO‡	603	-6	3952	5872		NA			NA
WEST	2872.8	13.2	H. D. Kelleher, chmn., pres. & CEO	567	0	1391	3817	118	2	14.1	24.0	2
ES			G. A. Barron, exec. v-p	331	3	0	924		2			2
			May contain data from a preliminary source.									
PPLIANCES (CONSUMER PRODUCTS)												
	5839.1	12.8	J. V. Roach, chmn. & CEO	918	-13	1141	4404	146	2	12.2	14.0	3
			L. H. Roberts, pres.	698	-14	332	2483		1			3
POOL	8347.0	11.1	D. R. Whitwam, chmn. & CEO	1450	-38	578	17287	128	4	11.4	-13.1	5
			W. D. Marohn, pres. & COO	686	-17	267	6710		4			4
UTOMOTIVE (CONSUMER PRODUCTS)												
LER	51190.0	19.2	R. J. Eaton, chmn. & CEO	3678	11	435	19504	184	4	29.1	231.2	3
			R. A. Lutz, pres. & COO	2621	7	1382	17053		5			4
	7786.7	24.7	S. J. Morcott, CEO	2631	30	208	6593	135	3	21.7	305.6	2
			J. M. Magliochetti, pres.	1175	32	24	2861		2			1
	6822.0	20.2	W. E. Butler, chmn. & CEO†	2161	8	885	7033	141	3	18.8	39.8	3
			S. R. Hardis, chmn. & CEO*	1448	32	963	5253		3			3
			*Became CEO 9/1/95.									
MOTOR	137137.0	15.4	A. Trotman, chmn., pres. & CEO	4885	-37	456*	20866	148	4	17.7	NA	3
			E. E. Hagenlocker, exec. v-p	2221	-33	0*	8348		4			3
			*1995 long-term incentives have not been determined.									
AL MOTORS	165370.1	28.8	J. F. Smith, Jr., pres. & CEO	3304	-4	2300	13139	172	3	36.0	NA	1
			L. R. Hughes, exec. v-p	1750	-1	6762	NA		3			1
ANKS & BANK HOLDING COMPANIES (FINANCIAL SERVICES)												
JNE	7885.0	16.3	J. B. McCoy, chmn. & CEO	2395	45	137	6956	107	3	15.3	5.8	3
			R. J. Lehmann, pres.	1197	54	400	3405		3			3
)F	4874.0	15.5	I. Stepanian, chmn. & CEO†	1578	-32	2437**	8481	192	3	13.6	61.4	3
N			C. K. Gifford, chmn, pres. & CEO*	2208	38	3195	8396		4			4
			*Became CEO 7/27/95. **Includes $375,957 paid under retirement agreement.									

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PR: ROE %	CHANGE IN ROE %
BANK OF NEW YORK	4995.0	J. C. Bacot, chmn. & CEO	4731	37	466	12668	193	4	16.5	63.5
	17.7	T. A. Renyi, pres.	2408	96	0	5180		3		
BANKAMERICA	19027.0	R. M. Rosenberg, chmn., pres. & CEO	4542	45	7313	17886	150	4	12.7	30.9
	13.8	L. W. Coleman, vice-chmn. & CFO	2177*	24	9042**	15093		4		
		CEO left office 12/31/95. *Includes $1.5 mil in lieu of bonus. **Includes $5 mil severance (resigned 12/1/95).								
BANKERS TRUST NEW YORK	7295.0	C. S. Sanford, Jr., chmn. & CEO	849	–37	1906	17889	113	5	14.0	–82.0
	4.0	F. N. Newman, sr. vice-chmn.*	1304	NA	222	NA		NA		
		*Joined company 9/21/95; became CEO 1/1/96.								
BARNETT BANKS	3622.4	C. E. Rice, chmn. & CEO	2307	33	1174	9647	155	3	15.8	100.8
	16.3	A. L. Lastinger, Jr., pres. & COO	1459*	57	965	5437		3		
		*Includes $536,686 tax reimbursement for stock option exercise.								
BOATMEN'S BANCSHARES	2687.8	A. B. Craig III, chmn. & CEO	1175	26	475	4224	160	1	15.1	19.1
	14.3	S. B. Hayes III, pres.	729	6	277	2913		2		
CITICORP	28128.0	J. S. Reed, chmn. & CEO	4300	1	3838	19774	310	3	19.1	203.6
	18.9	P. Chia, vice-chmn.	1542	9	777	5466		2		
FIFTH THIRD BANCORP	1474.1	G. A. Schaefer, Jr., pres. & CEO	1131	15	0	3788	142	2	16.9	2.2
	16.7	S. J. Schrantz, exec. v-p	575	12	0	1649		1		
FIRST BANK SYSTEM	2844.2	J. F. Grundhofer, chmn., pres. & CEO	1829	3	5535	16635	189	4	15.7	286.4
	21.4	R. A. Zona, vice-chmn. & CFO	935	7	2142	7823		4		
FIRST OF AMERICA BANK	1991.0	D. R. Smith, chmn. & CEO	751	–9	121	2804	130	1	14.3	4.0
	12.9	R. F. Chormann, pres. & COO	498	–8	70	1812		1		
FIRST UNION	9301.9	E. E. Crutchfield, chmn. & CEO	2586	47	1819	10082	139	4	15.9	24.3
	15.8	J. R. Georgius, vice-chmn.	1685	38	1406	7002		4		
FIRSTAR	1745.7	R. L. Fitzsimonds, chmn.	967	8	427	3502	137	1	16.2	–1.9
	15.2	J. A. Becker, pres.	690	8	291	2464		2		
FLEET FINANCIAL GROUP	7099.3	T. Murray, pres. & CEO	2892	21	0	8338	137	3	15.1	–0.3
	10.4	J. B. Alvord, chmn.	4034*	NA	2984**	NA		NA		
		*Includes $1.4 mil tax reimbursement. **Includes compensation from Shawmut (joined company 11/1/95)								
HUNTINGTON BANCSHARES	1648.6	F. G. Wobst, chmn. & CEO	1275	–12	88	6452	165	2	17.1	9.0
	16.1	Z. Sofia, pres., treas. & COO	709	11	196	3153		2		
MBNA	2565.0	A. Lerner, chmn. & CEO	2780	36	1634	9297	236	3	29.8	28.0
	33.4	C. M. Cawley, pres.	2890	39	3061	14771		4		
MELLON BANK	3241.0	F. V. Cahouet, chmn., pres. & CEO	1516*	31	5082	19405	165	4	12.9	–1.7
	18.2	C. M. Condron, vice-chmn.‡	907*	144	448	NA		NA		
		*Excludes 25% of bonus paid in restricted stock.								
MERCANTILE BANCORPORATION	1341.0	T. H. Jacobsen, chmn. & CEO	1159	8	2737	5917	154	2	14.8	20.8
	15.3	R. C. King, pres. & CEO-sub.	445	10	641	1859		1		
J. P. MORGAN	13838.0	D. A. Warner III, chmn.	2407	23	3305	16134	135	4	14.7	–38.4
	12.8	R. G. Mendoza, vice-chmn.	2103	18	5031	17049		5		
NATIONAL CITY	2828.6	E. B. Brandon, chmn. & CEO	909	–21	553	5218	148	2	16.3	14.4
	16.5	D. A. Daberko, chmn. & CEO*	800	13	520	3299		3		
		*Became CEO 9/30/95.								
NATIONSBANK	15938.0	H. L. McColl, Jr., chmn. & CEO	3500	17	0	19825	146	5	14.9	13.4
	16.3	K. D. Lewis, pres.	2000	3	0	5293		3		
NORTHERN TRUST	1609.0	D. W. Fox, chmn. & CEO†	812	–20	3745	8949	140	3	16.2	–2.9
	16.5	W. A. Osborn, chmn. & CEO*	661	4	555	4049		3		
		*Became CEO 6/1/95.								
NORWEST	7439.3	R. M. Kovacevich, pres. & CEO	3033*	4	764	15226	164	4	20.3	23.9
	18.3	L. S. Biller, exec. v-p	1526	11	0	6043		4		
		*Excludes $763,875 bonus paid in restricted stock.								
PNC BANK	6250.9	T. H. O'Brien, chmn. & CEO	1567	42	223	6920	127	3	12.7	–50.1
	7.0	J. E. Rohr, pres.	984	56	0	3114		3		
REPUBLIC NEW YORK	2859.6	W. H. Weiner, chmn. & CEO	963	–23	176	4350	140	2	12.8	–23.2
	10.4	J. C. Keil, pres.	962	–23	176	4481		3		
SOUTHERN NATIONAL	1774.5	J. A. Allison IV, chmn. & CEO*‡	721	25	0	1897	145	1	13.8	–11.5
	10.8	H. G. Williamson, Jr., COO‡	600	30	0	1532		1		
		*Became CEO 3/1/95.								
STATE STREET BOSTON	2273.6	M. N. Carter, chmn., pres. & CEO	1206	–1	0	4505	107	3	16.4	–4.6
	16.1	N. A. Lopardo, exec. v-p	1407	30	313	3627		3		
SUNTRUST BANKS	3688.3	J. B. Williams, chmn. & CEO	1028	5	720	5209	166	2	13.8	–13.4
	13.2	L. P. Humann, pres.	619	5	600	3505		2		
U. S. BANCORP	2721.3	G. B. Cameron, chmn. & CEO	1384	82	0	2889	138	1	12.0	–6.2
	12.8	R. D. Sznewajs, vice-chmn.	647	58	0	NA		NA		
WACHOVIA	3629.4	L. M. Baker, Jr., pres. & CEO	1012	10	1045	5125	145	2	16.2	2.3
	16.0	G. J. Prendergast, exec. v-p	642	18	339	2614		2		
WELLS FARGO	5237.0	P. Hazen, chmn. & CEO	2813	42	0	10258	297	2	22.1	274.5
	27.8	W. F. Zuendt, pres.	1749	31	0	4741		2		
6 BEVERAGES (CONSUMER PRODUCTS)										
ANHEUSER-BUSCH	10340.5	A. A. Busch III, chmn., pres. & CEO	1611	–26	219	5850	122	2	19.1	–7.1
	20.0	J. E. Ritter, CFO	834	–24	4213	7094		4		

FOOTNOTES ON PAG

ECUTIVE COMPENSATION SCOREBOARD

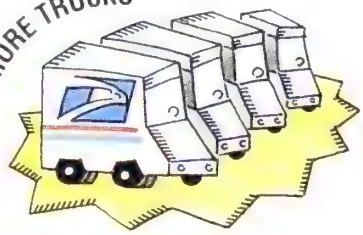
PANY	1995 SALES: $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
COLA	18018.0	R. C. Goizueta, chmn. & CEO	4880	12	8029	39476	183	5	51.1	17.0	4
	56.7	M. D. Ivester, pres. & COO	1646	41	575	7291		3			2
COLA	6773.0	S. K. Johnston, Jr., vice-chmn. & CEO	3845*	126	2238	12348	221	3	3.2	NA	4
PRISES	5.7	H. A. Schimberg, pres. & COO	3659*	136	3256	15367		4			5
		*Includes $1.9 mil & $2.1 mil (respectively) tax reimbursement									
CO	30420.7	D. W. Calloway, chmn. & CEO	3453	13	7966	17466	140	4	24.2	–11.8	4
	21.4	R. A. Enrico, vice-chmn.	1670	17	11274	16943		5			5
UILDING (INDUSTRIAL: LOW TECH)											
IDUSTRIES	7057.7	J. E. Dempsey, chmn. & CEO	2112	5	310	5433	149	2	20.6	152.5	2
	29.9	R. D. Duncan, exec. v-p	1018	5	435	4515		4			2
VIN-WILLIAMS	3273.8	J. G. Breen, chmn. & CEO	1378	0	1063	6198	139	3	16.8	3.7	3
	16.6	T. A. Commes, pres. & COO	905	–1	367	3315		3			3
HEMICALS (INDUSTRIAL: LOW TECH)											
RODUCTS & ICALS	3891.2	H. A. Wagner, chmn., pres. & CEO	1327	36	347	4766	119	3	11.8	14.7	3
	15.1	J. J. Kaminski, exec. v-p	625	4	674	2714		3			3
	4282.0	A. R. Hirsig, pres. & CEO	1173	23	0	2900	129	1	18.5	113.5	1
ICAL	25.8	M. O. Schlanger, exec. v-p & COO	793	32	0	2120		2			1
HEMICAL	20200.0	F. P. Popoff, chmn. & CEO	1992	22	927	7840	137	4	14.6	636.0	2
	24.6	W. S. Stavropoulos, pres. & CEO*	1277	42	1579	5187		4			3
		*Became CEO 11/1/95.									
IT	42163.0	E. S. Woolard, Jr., chmn. & CEO†	2700	33	1809	10905	160	4	22.9	401.2	2
	42.0	J. A. Krol, pres. & CEO*	1742	25	317	4284		3			2
		*Became CEO 12/1/95.									
IAN CHEMICAL	5040.0	E. W. Deavenport, Jr., chmn. & CEO	1319	0	1246	5795	NA	NA	29.2	256.5	1
	36.6	R. W. Bourne, Jr., v-chmn. & exec. v-p	767	3	1022	3122		NA			1
HARD	2840.1	O. R. Smith, chmn. & CEO	1660	25	6379	20421	148	5	13.8	24.0	4
	19.2	L. D. LaTorre, pres. & COO	847	22	3756	9433		5			4
		May contain data from preliminary source.									
LAKES	2361.1	R. B. McDonald, pres. & CEO	934	55	0	3239	106	2	21.6	–1.2	2
ICAL	21.8	R. T. Jeffares, exec. v-p & CFO	519	19	0	2425		3			2
ILES	2427.2	T. L. Gossage, chmn. & CEO	1977	27	5352	13218	277	3	22.4	219.9	3
	30.8	R. K. Elliott, pres. & COO	986	27	2607	5689		2			2
FLAVORS & ANCES	1439.5	E. P. Grisanti, chmn. & pres.	1275	10	0	3574	142	2	22.4	22.8	1
	22.2	H. C. van Baaren, sr. v-p	695	18	0	2531		2			2
ANTO	8962.0	R. B. Shapiro, chmn. & CEO*	1921	31	775	8626	226	3	19.4	NA	2
	19.8	N. L. Reding, vice-chmn.	1384	11	599	5382		3			2
		*Became CEO 4/1/95.									
ON	3475.2	S. J. Stewart, chmn. & CEO	1353	–59	1000	10219	183	4	15.2	58.7	3
NATIONAL	18.8	W. E. Johnston, Jr., exec. v-p	818	-50	570	5471		4			4
IR	3146.0	H. W. Lichtenberger, chmn. & CEO	1704	27	275	4247	206	1	23.4	51.4	1
	23.4	E. G. Hotard, pres.	1085	35	0	2405		1			1
& HAAS	3884.0	J. L. Wilson, chmn. & CEO	985	6	433	3708	128	2	14.7	34.0	2
	17.6	J. P. Mulroney, pres.	665	3	308	2690		3			3
CARBIDE	5888.0	R. D. Kennedy, chmn. & CEO†	1999	9	433	11344	239	3	26.7	441.3	2
	44.6	W. H. Joyce, pres. & COO*	1467	54	447**	4467		2			1
		*Became CEO 1/1/96. **Includes $327,628 realized from exercise of Praxair options.									
ONGLOMERATES (INDUSTRIAL: LOW TECH)											
STANDARD	10271.9	J. E. Stuart, chmn., pres. & CEO	1700	21	978	5022	259	1	6.6	24.0	4
	15.0	W. T. Leith, v-p‡	863	56	448	2190		1			4
SIGNAL	14346.0	L. A. Bossidy, chmn. & CEO	4408	21	4056	26680	164	5	25.8	2.5	4
	24.4	F. M. Poses, exec. v-p	1103	11	6148	12140		5			4
	3575.1	J. W. Teets, chmn. & CEO	1184	–51	2051	15701	150	4	16.1	–100.0	5
	0.0	N. D. Rittmaster, chmn. & CEO-sub.‡	515	–1	162	2057		1			3
AL ELECTRIC	69276.0	J. F. Welch, Jr., chmn. & CEO	5321	22	16741	36578	179	5	20.6	21.0	4
	22.2	P. Fresco, vice-chmn.	2635	24	8517	15039		5			5
OURT	3069.9	R. J. Tarr, Jr., pres. & CEO	2715	8	5291	13993	129	5	15.2	66.5	4
AL	20.6	R. A. Smith, chmn.	1275	0	0	3825		4			3
	8884.0	D. T. Engen, chmn., pres. & CEO*	1329	5	1461	5338	185	2	4.9	NA	4
TRIES	0.1	T. D. Leuliette, sr-vp‡	732	–8	1970	4215		3			4
		Formerly ITT Corp. *Became CEO 12/19/95									
	901.6	E. Krasnoff, chmn. & CEO	820	57	0	2034	139	1	16.9	17.2	1
	19.4	J. Hayward-Surry, pres. & CFO	490	45	0	1213		1			1
ARK	3573.6	W. L. Batts, chmn. & CEO	1120	–53	0	22117	261	4	23.7	4033.3	3
NATIONAL	26.8	E. V. Goings, exec. v-p; pres.	1200*	–28	459	4751		2			2
		*Bonus excludes $459,137 paid in restricted stock.									
WELL	13420.1	D. R. Beall, chmn. & CEO	2852	33	0	10213	193	3	19.2	13.3	3
NATIONAL	19.7	D. H. Davis, Jr., pres. & COO	1616*	70	678	4669		3			3
		*Includes $398,196 in relocation expenses.									

OTES ON PAGE 106

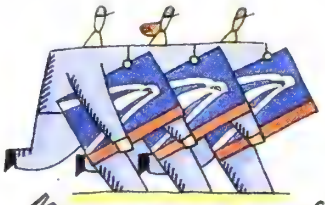
MORE AIRPLANES

Fact #1: We use more airplanes than FedEx® and UPS® combined to make sure your priority package or envelope gets to its destination.

MORE TRUCKS



Fact #2: We have 165,000 more trucks than FedEx and 70,000 more than UPS to make sure your priority package or envelope can be delivered to any address you want in the U.S.



MORE DROP-OFF POINTS

Fact #3: If you prefer, you can drop off your Priority Mail™ envelope at any one of 330,000 locations. That's 290,000 more than FedEx and 250,000 more than UPS.

MORE PICK-UP POINTS

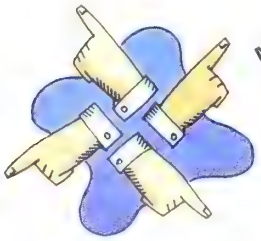
Fact #4: Unlike FedEx and UPS, you don't have to make a special call for a Priority Mail pick up. Your everyday postal letter carrier can see that it gets the attention it deserves.

MORE ADDRESSES

Fact #5: Priority Mail delivers to every address and P.O. Box in the U.S. FedEx doesn't. UPS doesn't.

FREE SATURDAY DELIVERY

Fact #6: Priority Mail gives you Saturday delivery at no extra charge. FedEx doesn't. UPS doesn't.



MORE OF YOUR PRIORITIES

Fact #7: Whether your priority is saving money,* convenience, or Saturday delivery, Priority Mail from the U.S. Postal Service makes a whole lot of sense. What's Your Priority?

*Price comparisons are based on Priority Mail up to 2 lbs. versus 2-lb. published rates for UPS 2nd Day Air ™ and FedEx 2Day ™. Priority Mail is delivered in a national average of 2-3 days, measured from Post Office to Post O

$12 $6 $3

What's Your Priority?

PRIORITY MAIL

UNITED STATES POSTAL SERVICE

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES $ MILLIONS	1995 ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS CORPORATE PROF: ROE %	CHANGE IN ROE %	R
TENNECO	8899.0	23.2	D. G. Mead, chmn. & CEO	1901	–1	0	6485	134	3	20.6	NA	
			T. R. Tetzlaff, gen. counsel	764	9	0	2848		3			
TEXTRON	9973.0	14.1	J. F. Hardymon, chmn. & CEO	2397	31	1571	8682	160	3	14.3	7.6	
			S. L. Key, exec. v-p & CFO	1200*	NA	0	NA		NA			
			*Includes $557,000 reimbursement of lost compensation from previous employer. Joined company 4/1/95.									
TRW	10172.0	20.5	J. T. Gorman, chmn. & CEO	4893	20	779	13760	145	4	17.7	50.4	
			P. S. Hellman, pres. & COO‡	2612	25	0	6024		4			
10 CONTAINERS (INDUSTRIAL: LOW TECH)												
CROWN CORK & SEAL	5053.8	5.1	W. J. Avery, chmn. & CEO	907	–8	963	5444	105	3	9.7	–62.2	
			M. J. McKenna, pres. & COO	412	1	966	2598		3			
MEAD	5179.4	15.9	S. C. Mason, chmn., pres. & CEO	1595	13	624	5194	145	2	9.3	530.6	
			E. M. Karter, v-p	577	21	522	2113		1			
SONOCO PRODUCTS	2706.2	21.3	C. W. Coker, chmn., pres. & CEO	1634	26	314	6284	123	3	19.6	47.5	
			P. C. Browning, exec. v-p‡	1067	32	0	3536		4			
UNION CAMP	4211.7	21.2	W. C. McClelland, chmn. & CEO	1228	27	421	3357	114	2	10.1	833.3	
			J. H. Ballengee, pres. & COO	761	20	360	2398		3			
11 DRUGS (CONSUMER PRODUCTS)												
ABBOTT LABORATORIES	10012.2	38.4	D. L. Burnham, chmn. & CEO	2232	24	0	6511	144	2	38.0	3.8	
			T. R. Hodgson, pres. & COO	1420	11	199	4752		3			
AMERICAN HOME PRODUCTS	13376.1	30.3	J. R. Stafford, chmn., pres. & CEO	2370	7	2579	13200	157	3	34.7	–6.1	
			R. G. Blount, sr. exec. v-p	1257	16	4391	8043		4			
AMGEN	1939.9	32.2	G. M. Binder, chmn. & CEO	1513	20	19991	23715	168	5	29.7	–16.0	
			K. W. Sharer, pres. & COO	1051	5	1420	5153		3			
BAXTER INTERNATIONAL	5048.0	10.0	V. R. Loucks, Jr., chmn. & CEO	1873	18	0	5539	139	2	5.9	–31.6	
			L. B. Knight, exec. v-p	729	0	0	2290		1			
BECTON DICKINSON	2759.0	18.8	C. Castellini, chmn., pres. & CEO	1144	51	298	2817	197	1	16.2	50.5	
			J. W. Galiardo, vice-chmn.	661	30	231	2752		1			
BRISTOL MYERS SQUIBB	13767.0	31.1	C. A. Heimbold, Jr., chmn., pres. & CEO	2359	24	0	6747	140	2	32.1	21.8	
			M. E. Autera, exec. v-p	1140	4	639	4646		3			
GENENTECH	874.5	9.6	A. D. Levinson, pres. & CEO*	675	31	0	1822	142	1	8.0	361.9	
			W. D. Young, sr. v-p	536	9	0	1462		1			
			*Became CEO 7/7/95.									
JOHNSON & JOHNSON	18842.0	26.6	R. S. Larsen, chmn. & CEO	2675	41	0	6658	176	2	28.9	–15.5	
			R. N. Wilson, vice-chmn.	2165	39	1579	7650		4			
LILLY (ELI)	6763.8	24.1	R. L. Tobias, chmn. & CEO	2009	8	1698	8264	198	2	19.0	42.2	
			S. Taurel, pres. & COO	1257	15	903	5060		2			
MALLINCKRODT GROUP	2228.4	16.0	C. R. Holman, chmn., pres. & CEO	1088	9	0	4735	112	2	4.6	50.9	
			M. G. Nichols, sr. v-p	619	10	0	2069		2			
MEDTRONIC	2089.7	24.2	W. W. George, pres. & CEO	833	4	895	4346	237	1	22.8	–3.9	
			A. D. Collins, Jr., COO	615	23	485	3232		1			
MERCK	16681.1	29.0	R. V. Gilmartin, chmn., pres. & CEO	2100	36	0	NA	159	NA	25.8	–40.8	
			E. M. Scolnick, exec. v-p	1303	3	5113	9533		4			
PFIZER	10021.4	29.4	W. C. Steere, Jr., chmn. & CEO	3115	5	5409	14777	182	3	25.5	27.0	
			H. A. McKinnell, Jr., exec. v-p	1345	25	1316	5576		3			
RHONE-POULENC RORER	5142.1	15.5	M. de Rosen, pres. & CEO*‡	882	11	0	1919	121	1	21.7	–52.5	
			T. G. Rothwell, exec. v-p	1072**	NA	0	NA		NA			
			May Include preliminary information. *Became CEO 4/1/95. **Includes $140,000 signing bonus (joined company 1/25/95).									
SCHERING-PLOUGH	5104.4	64.9	R. P. Luciano, chmn. & CEO	2441	4	6408	19964	181	4	58.5	43.9	
			R. J. Kogan, pres. & COO*	1494	9	4034	12701		5			
			*Became CEO 1/1/96.									
SIGMA-ALDRICH	959.8	16.5	C. T. Cori, chmn. & CEO	856	–3	299	3832	88	2	16.8	–11.5	
			D. R. Harvey, pres. & COO	535	2	130	2221		2			
WARNER-LAMBERT	7039.8	32.9	M. R. Goodes, chmn. & CEO	1722	2	1849	9472	151	3	30.5	–21.8	
			L. J. de Vink, pres. & COO	1132	1	1283	4761		3			
12 ELECTRICAL & ELECTRONICS (INDUSTRIAL: HIGH TECH)												
AMP	5227.2	15.4	W. J. Hudson, Jr., pres. & CEO	1155	12	1029	3999	141	2	15.2	3.3	
			J. E. Marley, chmn.	892	3	876	3440		3			
ANALOG DEVICES	1014.3	19.4	R. Stata, chmn. & CEO	1197	17	347	3345	327	2	14.6	386.0	
			J. G. Fishman, pres. & COO	1160	17	946	4161		2			
COOPER INDUSTRIES	4885.9	16.3	H. J. Riley, Jr., pres. & CEO	791	62	177	2116	87	2	11.9	50.2	
			R. Cizik, chmn.	1380	54	198	3708		4			
EMERSON ELECTRIC	10294.1	18.7	C. F. Knight, chmn., pres. & CEO	2046	2	0	23778	158	5	19.2	5.4	
			A. E. Suter, sr. vice-chmn. & COO	990	2	0	4933		3			
GENERAL INSTRUMENT	2432.0	13.5	D. F. Akerson, chmn. & CEO	1271	–22	4849	8757	183	3	24.5	NA	
			R. S. Friedland, chmn., pres. & CEO*	804	8	0	1947		1			
			*Became CEO 8/1/95.									

FOOTNOTES ON PAGE

ECUTIVE COMPENSATION SCOREBOARD

PANY	1995 SALES: $ MILLIONS / ROE: %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP. $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
S	3507.0	J. T. Hartley, chmn. & CEO†	1553	12	3053	13099	175	4	10.9	54.2	3
	12.6	P. W. Farmer, pres. & COO*	930	15	885	4257		3			3
		*Became CEO 7/1/95.									
	16202.0	A. S. Grove, pres. & CEO	2757	31	5425	12468	263	3	29.1	63.6	2
	32.1	C. R. Barrett, exec. v-p & COO	2068	33	0	11127		4			3
R	327.9	R. H. Swanson, Jr., pres. & CEO	907	21	139	2397	311	1	25.9	48.1	1
NOLOGY	30.0	C. B. Davies, v-p & COO	753	20	529	3392		2			2
	6178.9	B. L. Schwartz, chmn. & CEO	6244	39	25	41181	315	5	17.0	29.0	4
	17.3	F. C. Lanza, pres. & COO	3247	37	1828	11274		4			3
GIC	1267.7	W. J. Corrigan, chmn. & CEO	1344	17	2847	8460	609	2	19.3	NA	1
	19.6	B. L. Halla, exec. v-p	629	12	7344	10590		2			1
ON TECHNOLOGY	3603.5	S. R. Appleton, chmn., pres. & CEO*	1690	57	3438	8804	1058	1	33.3	3409.5	2
	45.5	T. A. Lowrey, v-chmn.	1695**	61	1179	5600		1			1
		*Resigned 1/18/96; rehired as CEO 1/26/96. **Resigned 9/26/94.									
K	1336.5	F. A. Krehbiel, chmn. & CEO	965	106	152	2166	187	2	11.2	26.3	2
	12.9	G. Tokuyama, v-p	1014	117	0	2462		2			2
ROLA	27037.0	G. L. Tooker, vice-chmn. & CEO	2026	2	7046*	19245	222	4	16.4	44.0	3
	16.1	C. B. Galvin, pres. & COO	1572	5	5234*	13696		4			3
		*1995 long-term incentives have not yet been determined.									
HEM	1601.5	R. J. Saldich, pres. & CEO	809	5	0	2185	140	2	3.2	NA	2
	8.1	H. O. Postlewait, exec. v-p	509	2	0	1910		2			2
S	13128.0	J. R. Junkins, chmn., pres. & CEO	2542	32	7714	16627	227	4	23.0	118.6	3
UMENTS	26.6	T. J. Engibous, exec. v-p‡	1370	51	1693	5484		3			2
INGHOUSE	6296.0	M. H. Jordan, chmn. & CEO	2500	84	0	4965	128	3	–8.5	–134.9	5
RIC	–5.2	W. C. Korn, exec v-p	1086	18	0	3168		3			5
FOOD PROCESSING (CONSUMER PRODUCTS)											
ER-DANIELS-	12970.6	D. O. Andreas, chmn. & CEO	3765	12	0	10353	120	3	11.4	20.8	4
ND	13.5	J. R. Randall, pres.	1686	13	0	4499		3			4
BELL SOUP	7581.0	D. W. Johnson, chmn., pres. & CEO	2205	22	2847	14633	150	4	24.7	12.8	3
	27.3	F. E. Weise III, sr. v-p	722	20	745	3095		2			2
GRA	24637.1	P. B. Fletcher, chmn. & CEO	1896	19	2186	12672	131	4	18.8	6.7	4
	19.1	L. Lochmann, pres. & COO	1119	54	1083	6487		4			4
NTERNATIONAL	8432.0	C. R. Shoemate, chmn., pres. & CEO	1366	14	2433	8154	144	3	23.8	1.1	3
	26.0	R. J. Gillespie, exec. v-p	768	15	1378	5325		3			3
RAL MILLS	5177.4	H. B. Atwater, Jr., chmn. & CEO†	610	–28	19	14716	109	4	107.2	132.6	1
	96.6	J. J. O'Hara, exec. v-p*‡	511	–8	2123	3788		3			1
		*Resigned 5/28/95.									
(H. J.)	8997.2	A. J. O'Reilly, chmn., pres. & CEO	1974	121	250	6674	122	3	25.3	14.7	2
	26.2	L. Ribolla, sr. v-p‡	796	87	100	2803		2			2
HEY FOODS	3690.7	K. L. Wolfe, chmn. & CEO	1078	20	907	4453	146	2	20.0	57.2	2
	26.0	J. P. Viviano, pres. & COO	836	23	568	3249		2			2
GG	7003.7	A. G. Langbo, chmn. & CEO	1645*	11	2393	7137	122	3	36.5	–12.2	2
	30.8	T. A. Knowlton, exec. v-p	844	18	647	2808		2			1
		*Excludes portion of bonus paid in 10,000 stock options.									
ER HI-BRED	1555.0	T. N. Urban, chmn. & CEO	950	–37	446	4465	215	1	20.7	12.6	2
NATIONAL	21.4	C. S. Johnson, pres. & COO*	722	–26	322	3403		1			2
		*Became CEO 9/1/95.									
ER OATS	5954.0	W. D. Smithburg, chmn. & CEO	858	–39	235	8911	116	3	54.8	115.3	1
	62.2	P. A. Marineau, pres. & COO	624	–38	55	4906		3			1
TON PURINA	6873.4	W. P. Stiritz, chmn., pres. & CEO	1985	46	0	4524	NA	NA	NA	NA	NA
P	50.4	W. P. McGinnis, v-p	576	31	0	1791		NA			NA
LEE	18335.0	J. H. Bryan, chmn. & CEO	2221	28	690	16773	113	5	14.8	–8.9	4
	19.5	M. E. Murphy, vice-chmn.	1262	36	345	8359		5			4
D	12721.8	J. F. Woodhouse, chmn.	1103**	9	437	4434	127	2	17.7	9.3	2
	17.8	B. M. Lindig, pres. & CEO*	1046**	18	427	4084		3			3
		*Became CEO 1/1/95. **Excludes portion of bonus received in restricted stock.									
N FOODS	5731.6	L. E. Tollett, chmn. & CEO	600	–49	449	3120	109	2	9.0	–14.9	3
	13.9	D. Tyson, chmn.	1694*	–21	0	5574		4			5
		*Includes $946,291 other annual compensation related to travel & entertainment.									
LEY (WM.) JR.	1754.9	W. Wrigley, pres. & CEO	475*	–47	24	2870	169	1	30.7	–5.7	1
	28.1	D. S. Barrie, v-p	353*	–37	18	1764		1			1
		*1995 bonus & other long-term awards have not yet been determined.									
FOOD & LODGING (SERVICE)											
AH'S	1550.1	P. G. Satre, pres. & CEO	614	–28	0	2673	192	1	12.9	12.0	2
RTAINMENT	13.5	M. D. Rose, chmn.	679	–43	0	2971		2			3
N HOTELS	1589.8	B. Hilton, chmn. & CEO*	1000	0	0	3005	150	2	11.4	33.0	2
	13.8	R. C. Avansino, Jr., pres. & COO	946	0	0	2666		2			2
		*Left office 2/2/96.									

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	TOP SALES, $ MILLIONS ROE %	EXECUTIVE	1995 COMPENSATION TOTAL ANNUAL COMP SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS PAY VS. SHAREHOLDER RETURN TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFI ROE %	CHANGE IN ROE %	RA
ITT	6300.0	R. V. Araskog, chmn. & CEO	4582	8	5344	24299	NA	NA	NA	NA	
	0.4	R. A. Bowman, pres. & COO	1240	30	1988	5507		NA			
		Includes compensation from ITT Industries (formerly ITT Corp.) prior to spin-off (completed 12/1/95).									
MARRIOTT INTL.	8961.0	J. W. Marriott, Jr., chmn., pres. & CEO	1496	4	139	4712	NA	NA	24.1	NA	
	23.4	W. J. Shaw, exec. v-p	863	3	1793	4735		NA			
15 GENERAL & SPECIAL MACHINERY (INDUSTRIAL: LOW TECH)											
APPLIED MATERIAL	3596.4	J. C. Morgan, chmn. & CEO	1688	32	10631	30767	467	4	22.5	246.0	
	28.8	J. W. Bagley, vice-chmn.	1357	32	0	8021		2			
BLACK & DECKER	4766.1	N. D. Archibald, chmn., pres. & CEO	2571*	52	1934	8320	201	3	12.3	NA	
	16.1	C. E. Fenton, v-p‡	621	27	257	1925		1			
		*Includes $768,885 to cover taxes for stock options exercised.									
CATERPILLAR	16072.0	D. V. Fites, chmn. & CEO	1568	0	1527	6463	226	2	32.4	NA	
	33.5	G. A. Barton, group pres.	588	–10	856	4049		2			
DEERE	10520.4	H. W. Becherer, chmn. & CEO	1813	11	1133	8533	256	2	18.4	1511.6	
	22.7	D. H. Stowe, Jr., pres. & COO	1199	10	823	5757		3			
DOVER	3745.9	T. L. Reece, pres. & CEO	1300	53	765	3754	171	1	20.4	41.3	
	22.7	L. E. Burns, v-p	760	19	670	3368		2			
DRESSER INDUSTRIES	5791.3	J. J. Murphy, chmn. & CEO*	1567	–10	0	5418	146	2	16.5	87.7	
	13.8	D. C. Vaughn, exec. v-p	874	1	0	2583		2			
		*Left office 11/1/95.									
FMC	4509.8	R. N. Burt, chmn. & CEO	1359	16	0	5685	137	3	31.2	–62.5	
	33.0	L. D. Brady, pres.	822	11	0	2122		1			
INGERSOLL-RAND	5729.0	J. E. Perella, chmn., pres. & CEO	1561	25	148	5326	128	3	13.7	68.4	
	15.1	J. F. Travis, exec. v-p	766	25	80	3027		3			
STANLEY WORKS	2624.3	R. H. Ayers, chmn., pres. & CEO	790	–17	0	2431	131	1	12.8	–42.9	
	8.0	R. A. Hunter, pres. & COO	481	–14	0	1409		1			
TYCO INTL.	4842.8	L. D. Kozlowski, chmn. & CEO	2078	49	1375	5799	175	2	11.7	71.5	
	15.7	R. A. Gilleland, sr. v-p*	2519	NA	0	NA		NA			N
		*Joined company 10/19/94; resigned 7/10/95.									
16 INSTRUMENTS (INDUSTRIAL: HIGH TECH)											
HONEYWELL	6731.3	M. R. Bonsignore, chmn. & CEO	1256	18	0	5612	155	3	16.5	–26.8	
	16.4	D. L. Moore, pres. & COO	1086	11	747	5776		4			
17 LEISURE TIME INDUSTRIES (CONSUMER PRODUCTS)											
CARNIVAL	1998.1	M. M. Arison, chmn. & CEO	1214	33	0	2820	154	1	19.5	–5.5	
	19.2	A. K. Lanterman, pres.	1078	4	0	3238		2			
WALT DISNEY	12628.4	M. D. Eisner, chmn. & CEO	8775*	9	5997	228439	139	5	17.7	12.7	
	19.6	S. M. Litvack, sr. exec. v-p	2247	7	0	5222		3			
		*Excludes $6.0 mil. bonus paid in restricted stock.									
EASTMAN KODAK	14980.0	G. M. Fisher, chmn., pres. & CEO	4282	10	6993*	23996	207	4	17.5	61.3	
	24.4	W. J. Prezzano, exec. v-p	1287	10	2888	8014		3			
		*Includes $2 mil loan forgiveness.									
HARLEY-DAVIDSON	1350.5	R. F. Teerlink, pres. & CEO	1026	–13	0	3214	155	1	17.9	47.5	
	23.8	J. L. Bleustein, COO	623	7	539	2355		1			
MATTEL	3638.8	J. W. Amerman, chmn. & CEO	4220*	137	2612	17124	193	3	22.2	4.2	
	27.5	J. E. Barad, pres. & COO	3290*	142	2819	12718		4			
		*Includes $2.3 mil & $1.8 mil (respectively) in exchange for cancelled SARs									
18 METALS & MINING (RESOURCES)											
ALUMINUM CO. OF AMERICA	12499.7	P. H. O'Neill, chmn. & CEO	2000	38	8603	14533	155	4	9.7	3040.1	
	18.0	A. J. Belda, vice-chmn.	1047	55	1	2865		2			
CYPRUS AMAX MINERALS	3207.0	M. H. Ward, chmn., pres. & CEO	2320*	45	1523	13486	91	5	5.1	NA	
	4.4	G. J. Malys, sr. v-p & CFO	665	32	368	4183		4			
		*Excludes $280,010 salary from Amax Gold									
FREEPORT-McMORAN COPPER & GOLD	1834.3	J. R. Moffett, chmn. & CEO	1819*	NA	104	NA	137	NA	30.6	122.6	N
	64.8	R. C. Adkerson, exec. v-p	850*	NA	20	NA		NA			N
		*Excludes compensation by Freeport-McMoRan Inc.									
NEWMONT MINING	636.2	R. C. Cambre, chmn., pres. & CEO	846	1	167	2157	142	1	12.0	–19.5	
	13.9	W. W. Murdy, sr. v-p & CFO	384	16	178	1431		1			
PHELPS DODGE	4185.4	D. C. Yearley, chmn., pres. & CEO	1332	16	2070	9575	139	3	16.5	82.3	
	27.9	J. S. Whisler, sr. v-p	613	13	3389	7333		4			
REYNOLDS METALS	7213.0	R. G. Holder, chmn. & CEO	1676	71	341	3571	113	2	0.6	NA	
	16.7	J. J. Sheehan, pres. & COO	934	69	0	1783		2			
19 MISCELLANEOUS MANUFACTURING (INDUSTRIAL: LOW TECH)											
AVERY DENNISON	3113.9	C. D. Miller, chmn. & CEO	1732	12	0	6490	185	2	14.7	76.5	
	17.6	P. M. Neal, pres. & COO	1071	14	557	3705		2			
CORNING	5346.1	J. R. Houghton, chmn. & CEO	1195	–23	471	5970	91	4	2.9	–117.1	
	–2.5	R. G. Ackerman, pres.	946	–20	898	4983		5			

FOOTNOTES ON PAGE

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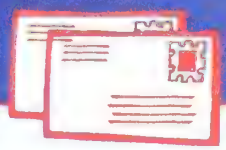

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ECUTIVE COMPENSATION SCOREBOARD

PANY	1995 SALES $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP. $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
ELL	2179.7	C. R. Perrin, chmn. & CEO*	1097	29	0	12922	160	4	15.8	6.0	4
NATIONAL	17.5	C. E. Kiernan, pres. & COO	659	26	1718	6201		4			4
		*Became CEO 10/1/94									
IBRAND	1624.9	W. A. Hillenbrand, pres. & CEO	737	3	0	4062	90	3	15.2	–37.5	3
TRIES	12.0	L. M. Smith, sr. exec. v-p	580	16	0	3055		4			4
IS TOOL	4152.2	J. D. Nichols, chmn. & CEO†	1748	25	1413	7826	186	3	18.2	40.5	3
S	20.1	W. J. Farrell, pres. & CEO*	687	27	0	3449		2			3
		*Became CEO 9/1/95.									
ON	8659.0	J. H. Keyes, chmn. & CEO	1331	3	932	5928	163	2	13.3	50.0	3
OLS	14.6	J. M. Barth, exec. v-p	672	6	427	2914		2			3
SOTA MINING	13460.0	L. D. DeSimone, chmn. & CEO	1332	9	915	7004	142	3	19.0	–4.1	3
.	18.0	R. A. Mitsch, vice chmn. & exec. v-p	715	9	540	3738		3			3
L	2498.4	W. P. Sovey, vice-chmn. & CEO	1185	7	0	3275	133	1	17.1	–9.9	2
	17.1	T. A. Ferguson, Jr., pres. & COO	898	10	0	3684		3			4
R-HANNIFIN	3427.1	D. E. Collins, pres. & CEO	1347	25	492	3656	184	1	10.4	176.4	2
	18.8	D. W. Sullivan, exec. v-p	925	11	512	3240		2			3
RMAID	2344.2	W. R. Schmitt, chmn. & CEO	1224*	–13	863	6128	85	4	13.9	–68.9	4
	5.3	C. A. Carroll, pres. & COO	620	–14	487	2877		4			5
		*Includes $431,580 award for exceeding stock objective.									
NATURAL RESOURCES (RESOURCES)											
ADA HESS	7412.6	J. B. Hess, chmn. & CEO*	900	22	0	3360	119	2	–6.9	–6066.3	5
	13.3	W. S. Laidlaw, pres. & COO	1574**	102	0	3947		3			5
		*Became CEO 5/3/95. **Includes $787,422 related to relocation.									
D	27066.0	H. L. Fuller, chmn., pres. & CEO	890*	–45	0	5349	161	2	12.8	91.2	3
	12.5	L. D. Thomas, vice-chmn.†	541*	–41	329	3468		2			2
		*1995 bonus has not been determined.									
ARKO	434.0	R. J. Allison, Jr., chmn., pres. & CEO	1825	16	75	6403	187	2	3.8	–44.1	4
LEUM	2.3	C. G. Manley, sr. v-p-administration	428	0	16	2997		2			4
ND	11417.0	J. R. Hall, chmn. & CEO	887	–46	75	4207	145	2	9.8	NA	2
	3.9	D. J. D'Antoni, sr. v-p	653	8	0	1969		1			2
TIC RICHFIELD	15819.0	M. R. Bowlin, pres., CEO & COO	1568	9	7	4131	111	3	13.1	14.8	2
	20.3	R. J. Arnault, exec. v-p & CFO	1166	–1	1061*	5268		4			3
		*Includes $788,859 dividend share credits paid.									
NGTON	872.5	T. H. O'Leary, chmn.	1425	–10	0	11080	102	4	1.1	–259.7	5
RCES	–12.6	B. S. Shackouls, pres. & CEO*	870	22	70	2413		3			5
		*Became CEO 12/1/95.									
ON	37082.0	K. T. Derr, chmn. & CEO	1721	1	1958	9506	167	3	9.0	–59.8	5
	6.5	J. D. Bonney, vice-chmn.†	1077	8	1072	5459		3			5
AL	10447.7	O. S. Wyatt, Jr., chmn. & CEO	1149	10	0	3251	160	1	7.8	NA	1
	9.8	D. A. Arledge, pres. & CEO*	923	31	86	2256		1			2
		*Became CEO 10/5/95.									
OIL & GAS	648.7	F. E. Hoglund, chmn., pres. & CEO	640	–10	1432	26742	166	5	13.8	6.5	4
	12.5	M. G. Papa, pres.	401	4	270	2311		1			2
	107893.0	L. R. Raymond, chmn. & CEO	2493	34	4567	15083	146	4	14.8	13.1	3
	15.9	C. R. Sitter, pres.†	1485	8	8127	15762		5			4
	64767.0	L. A. Noto, chmn., pres., CEO & COO	1601	14	1538	8550	193	3	11.7	72.6	3
	13.2	P. J. Hoenmans, exec. v-p	1249	1	2998	11184		5			4
ENTAL	10423.0	R. R. Irani, chmn., pres. & CEO	3754	10	2553	18116	143	5	3.4	253.7	4
LEUM	12.6	D. R. Laurance, exec. v-p	1440	25	442	5002		3			3
PS	13368.0	W. W. Allen, chmn. & CEO	1238	–22	560	5068	149	2	13.4	47.0	2
LEUM	14.7	J. J. Mulva, pres. & COO‡	703	–24	267	2642		2			2
O	35551.0	A. C. DeCrane, Jr., chmn. & CEO	1850	21	1754	9013	147	3	9.9	–29.2	4
	7.3	A. J. Krowe, vice-chmn.	1243	20	1078	6263		4			4
ARATHON GROUP	13871.0	T. J. Usher, chmn. & CEO-USX Corp.*	1580	53	1838	NA	125	NA	NA	NA	NA
	–3.0	V. G. Beghini, v-chmn.	1293	17	947	5023		3			NA
		*Became CEO 7/1/95. Compensation also listed under USX-U. S. Steel.									
NONBANK FINANCIAL (FINANCIAL SERVICES)											
LIFE	12978.0	R. E. Compton, chmn., pres. & CEO	2101	95	4498	9947	167	3	2.1	NA	4
UALTY	6.5	R. L. Huber, v-chmn.	1252	NA	200*	NA		NA			NA
		*Includes $200,000 signing bonus.									
	7190.6	D. P. Amos, pres. & CEO	1784	3	0	10505	162	3	17.0	–3.5	4
	16.4	P. S. Amos, chmn.	1925	–1	507	7851		4			4
NSON (H. F.)	4397.5	C. R. Rinehart, chmn. & CEO	1611	25	1166	5504	151	2	4.5	157.7	3
	13.1	F. J. Forster, pres. & COO	817	11	469	2897		2			3
ATE	22793.0	J. D. Choate, chmn. & CEO	1466	170	521	3382	NA	NA	11.6	NA	1
	16.4	E. M. Liddy, pres. & COO	1257	74	226	NA		NA			NA
ICAN EXPRESS	15841.0	H. Golub, chmn. & CEO	2987	–3	4907	20417	192	4	19.9	258.7	3
	19.3	K. I. Chenault, vice-chmn.	1666	32	2312	8333		4			3

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES: $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	TOTAL ANNUAL COMP: % CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PRO: ROE %	CHANGE IN ROE %
AMERICAN GENERAL	6452.0	H. S. Hook, chmn. & CEO	1960	0	3094	11964	135	4	9.7	–18.6
	9.4	R. M. Devlin, pres.	861	28	128	3221		3		
AMERICAN INTL. GROUP	23801.0	M. R. Greenberg, chmn. & CEO	4150	11	6834	32184	181	5	13.1	5.7
	13.4	E. E. Matthews, vice-chmn.-finance	937	22	737	7985		4		
AON	3465.7	P. G. Ryan, chmn., pres. & CEO	1793	30	0	4374	149	2	12.6	14.0
	10.5	H. N. Medvin, exec. v-p, CFO & treas.	790	15	376	2439		2		
BEAR STEARNS	4382.9	J. E. Cayne, pres. & CEO	4230	–45	4383	39100	144	5	20.9	–34.0
	17.1	A. C. Greenberg, chmn.	5828	–47	2513	38828		5		
BERKSHIRE HATHAWAY	4277.4	W. E. Buffett, chmn. & CEO	100	0	224*	942	273	1	5.0	–23.9
	3.5	M. D. Hamburg, v-p & CFO	228	11	0	603		1		
		*Includes $224,100 in director fees from nonsubsidiary.								
CHUBB	6074.4	D. R. O'Hare, chmn., pres. & CEO	2031	46	343	5703	115	3	11.3	–15.2
	13.2	P. Chubb III, vice-chmn.	936	52	116	2636		3		
CIGNA	18955.0	W. H. Taylor, chmn. & CEO	2447	42	146	7928	192	3	5.3	–50.1
	2.9	J. G. Stewart, exec. v-p & CFO	1302	31	112	4122		2		
CINCINNATI FINANCIAL	1655.7	R. B. Morgan, pres. & CEO	975	9	165	4919	118	3	10.1	–5.0
	9.5	J. J. Schiff, Jr., chmn.	512	6	0	1905		2		
CNA FINANCIAL	14699.7	D. H. Chookaszian, chmn. & CEO	1593	28	0	4318	116	2	6.0	NA
	12.3	P. L. Engel, pres.	963	17	0	2638		3		
EQUIFAX	1623.0	C. B. Rogers, Jr., chmn. & CEO†	566*	2	2917	7302	216	2	32.3	17.1
	38.8	D. W. McGlaughlin, pres. & COO	529*	–5	1445	4610		2		
		*Excludes portion of bonus paid in restricted stock.								
FIRST USA	NA	J. C. Tolleson, chmn. & CEO	1306	26	1740	7700	385	1	21.7	201.5
	27.6	R. W. Vague, pres.	903	39	3494	7011		2		
FRANKLIN RESOURCES	856.8	C. B. Johnson, pres. & CEO	779	5	0	2164	147	1	25.0	–11.3
	23.5	M. L. Flanagan, sr. v-p & CFO	1083	3	600	16012		5		
GENERAL RE	7210.2	R. E. Ferguson, chmn. & CEO	1535	5	2017	9764	139	4	13.4	–10.8
	12.4	J. C. Etling, vice-chmn.†	1130	11	370	3769		3		
GOLDEN WEST FINANCIAL	2456.6	M. O. Sandler, chmn. & CEO*	941	4	0	5123	130	3	11.8	–34.9
	10.7	H. M. Sandler, chmn. & CEO*	941	4	5538	10022		4		
		*Both executives hold the title of CEO.								
GREAT WESTERN FINANCIAL	3566.4	J. F. Montgomery, chmn. & CEO	1659	–1	251	5163	161	2	7.0	399.5
	8.9	J. F. Maher, pres. & COO*	1119	–6	0	3254		2		
		*Became CEO 12/27/95.								
GREEN TREE FINANCIAL	711.3	L. M. Coss, chmn. & CEO	65580	126	0	108593	446	5	24.6	17.7
	27.8	R. D. Potts, pres. & COO	1183	34	0	2156		1		
		May contain preliminary information.								
HOUSEHOLD INTERNATIONAL	5144.4	W. F. Aldinger, pres. & CEO	1858	171	0	NA	213	NA	15.0	67.3
	16.7	D. C. Clark, chmn.	1548	–18	400	7436		3		
JEFFERSON-PILOT	1569.4	D. A. Stonecipher, pres. & CEO	1351	21	351	4010	155	1	12.9	5.6
	12.7	K. C. Mlekush, sr. v-p	552	15	114	1694		1		
LOEWS	18677.4	P. R. Tisch, co-chmn. & co-CEO	2169	12	26	6077	133	3	13.0	NA
	24.3	L. A. Tisch, co-chmn. & co-CEO	862*	43	26	2107		2		
		*Excludes $1.7 mil salary & bonus from CBS as pres. & CEO.								
MARSH & McLENNAN	3770.3	A. J. Smith, chmn. & CEO	2237	6	1339	9035	106	4	24.8	–12.9
	24.0	L. J. Lasser, pres.	5820	–49	4537	29362		5		
MBIA	462.2	D. H. Elliott, chmn.	763	–16	2471	5134	123	3	14.3	–11.0
	12.1	R. L. Weill, pres.‡	559	4	100	1768		1		
MERRILL LYNCH	21513.0	D. P. Tully, chmn. & CEO	5144	6	1212	20423	180	4	21.6	–4.9
	19.7	D. H. Komansky, pres. & COO	4015	25	969	14015		4		
MGIC INVESTMENT	622.8	W. H. Lacy, pres. & CEO	887	31	1872	4110	215	1	19.1	18.4
	20.4	C. S. Culver, exec v-p	404	41	615	1576		1		
MORGAN STANLEY GROUP	NA	R. B. Fisher, chmn.	4664*	77	7251	25094	150	5	NA	NA
	NA	J. J. Mack, pres.	4597*	79	4973	22383		5		
		*Pay reflects 10 mos. due to change in fiscal year.								
PROGRESSIVE	3011.9	P. B. Lewis, chmn., pres. & CEO	1720	–17	291	6601	170	2	23.9	–24.3
	18.5	B. W. Marlow, COO	1227	0	174	4095		3		
PROVIDIAN	3388.4	I. W. Bailey II, chmn. & CEO	1289	8	1158	7083	120	3	13.3	–21.6
	12.5	S. J. Mehta, pres. & COO	918	13	421	4292		3		
SAFECO	3722.7	R. H. Eigsti, chmn., pres. & CEO	715	19	634	3463	130	2	12.2	–21.2
	10.0	B. A. Dickey, exec. v-p & CFO	429	11	313	2038		1		
SALOMON	8933.0	R. E. Denham, chmn. & CEO	1000	0	0	4070	98	3	5.4	–23.9
	10.5	R. H. Mundheim, exec. v-p	1138*	9	415	4217		4		
		*Includes $888,000 guaranteed bonus under employment contract.								
SCHWAB (CHARLES)	1419.9	C. R. Schwab, chmn. & CEO	9406	187	0	15869	352	3	29.9	–11.5
	27.8	D. S. Pottruck, pres. & COO	6593	399	5402	16291		4		
ST. PAUL	5409.6	D. W. Leatherdale, chmn., pres. & CEO	1368	6	214	4615	156	2	14.9	NA
	14.7	P. A. Thiele, exec. v-p & CFO	764	10	178	2833		2		
[illegible] AMERICA	1135.4	E. Broad, pres. & CEO	2222	18	4201	26813	277	4	18.4	33.0
	18.5	M. Fowler, v-p	3056	78	663	7262		3		

FOOTNOTES ON PAG

ECUTIVE COMPENSATION SCOREBOARD

PANY	1995 SALES: $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
HMARK	2090.6	R. K. Richey, chmn. & CEO	1848	–5	0	5922	85	4	19.4	–27.2	3
	17.1	J. P. Bryan, pres. & CEO-Gulf Canada	1134*	85	0	2461		3			2
		*Compensated by Gulf Canada.									
SAMERICA	6101.1	F. C. Herringer, chmn., pres. & CEO	1684	10	425	6040	164	2	14.1	1.7	3
	11.4	R. H. Finn, exec. v-p	1015	1	488	3893		3			3
ELERS	16583.0	S. I. Weill, chmn. & CEO	5607	44	44233	114818	267	5	13.6	–25.6	5
	14.1	R. F. Greenhill, chmn. & CEO-Smith Barney	12027	137	3*	43187		5			5
		*Includes $3.0 mil severance payment (resigned 1/15/96).									
1	4122.9	J. F. Orr III, chmn. & CEO	940	50	446	5740	109	3	12.1	–9.2	3
	13.4	R. W. Crispin, exec. v-p	731	NA	1341*	NA	·	NA			NA
		*Includes $464,849 in relocation expenses.									
OFFICE EQUIPMENT & COMPUTERS (INDUSTRIAL: HIGH TECH)											
ICA	707.9	S. M. Case, pres. & CEO	200	24	2679	6944	1026	1	6.7	–91.7	4
IE	1.0	M. M. Connors, sr. v-p	218	21	1265	2254		1			4
E COMPUTER	11378.0	M. H. Spindler, pres. & CEO*	1425	53	2088	6595	56	4	7.8	–75.3	5
	6.0	I. Diery, exec. v-p	791	31	1566**	3941		5			5
		*Left office 2/1/96. **Includes $631,177 severance package (resigned 4/19/95).									
MATIC DATA	3165.7	J. S. Weston, chmn. & CEO	1200	12	6992	18727	143	5	19.4	–5.0	4
ESSING	18.8	A. F. Weinbach, pres. & COO	680	10	1205	5787		4			3
	1727.9	A. K. Ludwick, pres. & CEO	440	–5	0	1461	328	1	26.6	53.8	1
ORKS	23.1	R. V. Schmidt, exec. v-p‡	435	–8	0	1473		1			1
SYSTEMS	2667.8	J. T. Chambers, pres. & CEO*	394	14	8489	36587	380	4	36.1	1.9	3
	35.0	D. A. LeBeau, sr. v-p‡	346	–17	3942	8724		3			3
		*Became CEO 1/31/95.									
AQ	14755.0	E. Pfeiffer, CEO	3625	–28	12493	33310	295	4	19.4	61.0	4
UTER	17.1	G. Stimac, sr. v-p	1170	17	4196	25883		5			4
UTER	3196.2	C. B. Wang, chmn. & CEO	5585	–17	3057*	19071	424	3	16.9	–138.2	5
CIATES INTL.	–8.9	S. Kumar, pres. & COO	3317	59	4918*	12139		3			4
		*Restricted stock awards subject to shareholder approval.									
XE	1858.0	H. V. Haverty, chmn., pres. & CEO	847	0	0	3203	71	3	15.5	–53.0	3
	11.5	J. A. Blanchard III, pres. & CEO	697*	NA	769	NA		NA			NA
		*Joined company and became CEO 5/1/95. Includes $250,000 signing bonus.									
AL EQUIPMENT	14439.8	R. B. Palmer, chmn., pres. & CEO	1275	42	400*	3322	190	2	–19.8	NA	1
	10.3	E. Pesatori, v-p‡	902	31	312*	2861		2			1
		*Includes restricted stock granted after end of fiscal year.									
DATA	4081.2	H. C. Duques, chmn. & CEO	502	19	0	1362	196	1	11.3	–126.1	5
	–4.6	C. T. Fote, exec. v-p	454*	75	0	1224		1			5
		*Excludes portion of bonus paid in stock options.									
ETT-PACKARD	33503.0	L. E. Platt, chmn., pres. & CEO	1531	30	2101	8380	245	2	17.1	82.2	3
	21.4	R. P. Wayman, exec. v-p & CFO	807	18	1377	5032		2			2
MIX	709.0	P. E. White, chmn., pres. & CEO	822	20	5598	18403	331	3	25.3	–30.9	4
	24.9	H. H. Graham, sr. v-p-finance	444	25	3020	8354		3			3
		May contain data from a preliminary source.									
	71940.0	L. V. Gerstner, Jr., chmn. & CEO	4775	4	8452	33289	188	5	–3.6	NA	3
	19.2	N. C. Lautenbach, sr. v-p	1240	16	1745	4840		3			1
OSOFT	7419.0	W. H. Gates III, chmn. & CEO	416	–9	0	1291	206	1	NA	NA	NA
	29.7	R. J. Herbold, exec. v-p & COO	740*	NA	93	NA		NA			NA
		*Includes $250,000 signing bonus.									
LL	1985.9	R. J. Frankenberg, chmn. & CEO	813	–3	0	NA	50	NA	9.2	–36.3	NA
	16.9	J. A. Marengi, exec. v-p	553	11	144	1939		4			4
LE	3479.1	L. J. Ellison, chmn., pres. & CEO	3343	39	10800	18703	448	3	35.8	21.6	3
	32.6	R. J. Lane, exec v-p	2127	74	5936	10273		3			3
METRIC	440.9	S. C. Walske, chmn. & CEO	800	10	5390	26058	251	4	26.2	–18.5	4
NOLOGY	21.8	C. R. Harrison, pres. & COO	750	35	617	21477		5			4
HEX	294.9	B. T. Golisano, chmn., pres. & CEO	500	14	0	1314	322	1	26.8	13.9	1
	26.7	J. T. Carlen, exec. v-p	281	61	0	NA		NA			NA
EY	3554.8	G. B. Harvey, chmn., pres. & CEO	1918	38	4064	12344	126	4	19.5	4.2	3
ES	19.7	M. J. Critelli, vice-chmn.‡	1050	66	361	3011		3			2
ATE TECHNOLOGY	5493.4	A. F. Shugart, chmn., pres., & CEO	1498	26	4710	13795	242	3	19.2	197.6	3
	21.8	D. L. Waite, exec v-p & CFO	1031	34	1519	5105		2			2
ON GRAPHICS	2497.2	E. R. McCracken, chmn. & CEO	1446	15	0	6663	193	3	15.6	NA	1
	16.2	T. A. Jermoluk, pres. & COO	1251	37	1872	10410		4			2
	6389.8	S. G. McNealy, chmn., pres. & CEO	3000	147	1020	7473	271	2	14.9	98.7	2
OSYSTEMS	23.2	E. J. Zander, pres.	900	51	176	3958		2			2
1	1871.5	E. A. Benhamou, pres. & CEO	522	9	5699	9327	630	2	12.8	44.2	3
	21.5	R. J. Finocchio, Jr., exec. v-p	374	11	8335	12381		2			4
X	15603.0	P. A. Allaire, chmn. & CEO	4251	25	1795	15067	184	4	13.0	NA	2
	28.7	B. D. Romeril, exec. v-p‡	1463	–25	1006	5666		3			2
		May contain data from a preliminary source.									

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES: $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROF: ROE %	CHANGE IN ROE %	R
23 OIL SERVICE & SUPPLY (RESOURCES)											
BAKER HUGHES	2725.2	J. D. Woods, chmn. & CEO	1556	12	1155	7713	131	3	6.1	NA	
	8.1	M. L. Lukens, pres. & COO	903	25	1636	4501		3			
SCHLUMBERGER	7621.7	D. E. Baird, chmn. & CEO	2100	31	1313	6888	128	3	12.7	–16.4	
	13.1	V. E. Grijalva, exec. v-p	985	19	579	3520		3			
24 PAPER & FOREST PRODUCTS (RESOURCES)											
GEORGIA-PACIFIC	14292.0	A. D. Correll, chmn. & CEO	2467	–33	0	10015	118	4	13.5	NA	
	28.9	W. E. Babin, exec. v-p	1036	55	0	2700		3			
INTL. PAPER	19821.0	J. A. Georges, chmn. & CEO†	2335	13	1134	8975	122	4	8.8	562.4	
	15.2	J. T. Dillon, pres. & COO*	1090	36	2509	5788		4			
		*Became CEO 4/1/96.									
KIMBERLY-CLARK	13788.6	W. R. Sanders, chmn. & CEO	1649	44	0	4326	153	2	14.1	–94.2	
	0.9	J. G. Grosklaus, exec. v-p	773	42	0	2432		2			
WESTVACO	3279.5	J. A. Luke, Jr., pres. & CEO	983	40	0	2383	131	1	7.5	82.8	
	14.0	D. L. Luke III, chmn.	645	–14	2846	6974		5			
WEYERHAEUSER	11788.0	J. W. Creighton, Jr., pres. & CEO	1556	18	767	5024	128	3	14.9	74.5	
	17.8	R. C. Gozon, exec. v-p‡	724	131	0	NA		NA			
WILLAMETTE INDUSTRIES	3873.6	S. R. Rogel, pres., CEO & COO	623	23	136	1820	144	1	16.5	298.1	
	27.9	W. Swindells, chmn. & CEO†	547	–11	681	2936		2			
25 PERSONAL CARE PRODUCTS (CONSUMER PRODUCTS)											
AVON PRODUCTS	4492.1	J. E. Preston, chmn. & CEO	991	–6	0	2963	146	1	130.0	197.6	
	167.7	E. J. Robinson, pres. & COO	1004	–3	0	3226		2			
CLOROX	2078.6	G. C. Sullivan, chmn. & CEO	1157*	19	415	4981	166	2	20.6	58.5	
	22.9	N. P. DeFeo, group v-p	671*	25	67	NA		NA			
		*Bonus excludes $93,466 & $56,592 (respectively) stock premium paid in restricted stock.									
COLGATE-PALMOLIVE	8358.2	R. Mark, chmn. & CEO	1985	–16	13083	35264	134	5	22.9	–48.2	
	9.1	W. S. Shanahan, pres. & COO	1173	–10	657	11308		5			
GILLETTE	6794.7	A. M. Zeien, chmn. & CEO	2425	21	2922	13249	188	3	32.7	–4.0	
	33.4	M. C. Hawley, pres. & COO‡	908	43	1239	3523		2			
PROCTER & GAMBLE	34923.0	E. L. Artzt, chmn. & CEO†	2874*	26	1108	15533	162	4	17.0	23.2	
	24.4	J. E. Pepper, chmn. &CEO	961	–40	1615	8743		3			
		*1995 bonus estimated.									
26 PUBLISHING, RADIO & TV BROADCAST (SERVICE)											
COX COMMUNICATIONS	1286.2	J. O. Robbins, pres. & CEO‡	755	4	1597	4816	NA	NA	6.1	NA	
	4.5	B. R. Elson, exec. v-p-operations‡	475	38	355	1834		NA			
DOW JONES	2283.8	P. R. Kann, chmn. & CEO	1125	7	524	5652	157	3	11.3	44.9	
	11.8	K. L. Burenga, pres. & COO	830	8	364	4000		3			
DUN & BRADSTREET	5415.1	R. E. Weissman, chmn. & CEO	1632	10	1332	8514	125	4	37.8	5.7	
	27.1	E. A. Bescherer, Jr., exec. v-p	828	6	828	4654		4			
GANNETT	4006.7	J. J. Curley, chmn., pres. & CEO	1660	6	1195	6466	129	3	23.3	8.0	
	23.6	D. H. McCorkindale, v.-chmn. & CFO	1442	7	464	4360		3			
KNIGHT-RIDDER	2751.8	P. A. Ridder, pres.*	798	–4	341	2823	115	2	13.6	21.9	
	15.1	P. J. Tierney, v-p‡	614	31	0	1520		2			
		*Became CEO 3/24/95.									
McGRAW-HILL	2935.3	J. L. Dionne, chmn. & CEO	1594	–1	1413	7171	153	3	15.2	30.2	
	21.9	H. W. McGraw III, pres. & COO	982	2	744	4155		3			
NEW YORK TIMES	2409.4	A. O. Sulzberger, chmn. & CEO	1378	1	198	4502	119	3	7.5	NA	
	8.4	L. R. Primis, pres. & COO	1132	3	166	3397		3			
READER'S DIGEST	3151.2	J. P. Schadt, pres. & CEO*	1049	–1	954	4768	103	3	35.9	51.9	
	39.1	G. V. Grune, chmn.†	1141	–47	2432	9220		5			
		*Became CEO 8/1/94.									
SCRIPPS (E. W.)	1030.1	L. A. Leser, chmn. & CEO	1215	4	0	3341	165	2	11.5	–44.4	
	8.1	W. R. Burleigh, pres. & COO	683	7	0	2020		2			
TELE-COMMUNICATIONS-TCI GROUP	6851.0	J. C. Malone, pres. & CEO	850	3	18	2533	117	4	–1.1	NA	
	–4.4	B. Magness, chmn.	850	2	18	2503		2			
TIME WARNER	8067.0	G. M. Levin, chmn. & CEO	5204	0	0	15538	133	5	–11.5	NA	
	–4.8	R. D. Parsons, pres.	2917	NA	0	NA		NA			
TIMES MIRROR	3448.3	M. H. Willes, pres. & CEO*	2033	NA	595	NA	144	NA	–4.3	–937.9	
	–28.0	R. F. Erburu, chmn., pres. & CEO†	1008	–48	965	5071		3			
		*Became CEO 6/1/95.									
TRIBUNE	2244.7	J. W. Madigan, pres. & CEO*	1201	41	1757	7175	134	3	17.3	32.1	
	17.9	C. T. Brumback, chmn. & CEO†	1048	–18	2892	9199		5			
		*Became CEO 5/30/95.									
WASHINGTON POST	1719.4	D. E. Graham, chmn. & CEO	400	0	584	1989	128	1	15.3	30.3	
	16.8	A. G. Spoon, pres. & COO	830	10	637	2994		3			

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RAILROADS (TRANSPORTATION)											
NGTON	6183.0	G. Grinstein, chmn.†	2520	47	846	8186	188	3	14.0	–83.5	5
IERN SANTA FE	3.5	R. D. Krebs, pres. & CEO*‡	790	11	6928	9601		4			5
		*Became CEO 9/1/95.									
	10504.0	J. W. Snow, chmn., pres. & CEO	1384*	–29	3474	13711	140	5	14.4	2067.1	3
	14.6	G. L. Nichols, exec. v-p & COO‡	806	71	536	2874		2			2
		*Excludes portion of bonus paid in restricted stock.									
LK	4668.0	D. R. Goode, chmn., pres. & CEO	1508	–7	144*	5411	139	3	13.7	12.5	3
IERN	14.8	J. R. Turbyfill, vice-chmn.	996	–16	516*	5352		3			3
		*1995 long-term incentives have not been determined.									
PACIFIC	7486.0	D. Lewis, chmn. & CEO	2690	6	0	8091	121	4	14.3	–38.0	4
	9.7	R. K. Davidson, pres & COO	1589	12	0	8797		5			4
RETAILING (FOOD) (SERVICE)											
TSON'S	12585.0	G. G. Michael, chmn. & CEO	1031	–3	606	4203	135	3	24.3	19.8	2
	23.8	J. B. Carley, pres. & COO	888	–1	2305	6755		4			3
		May include preliminary information.									
AY	16397.5	S. A. Burd, pres. & CEO	1356	7	0	3714	396	1	38.1	6.9	1
	43.3	K. W. Oder, exec. v-p	883	2	0	2641		1			1
DIXIE STORES	12567.2	A. D. Davis, chmn. & CEO	718	0	0	2184	102	2	20.9	–19.6	1
	18.3	J. Kufeldt, pres.	718	0	316	4295		4			4
RETAILING (NONFOOD) (SERVICE)											
ONE	1881.4	J. R. Hyde III, chmn. & CEO	1053	–9	0	34439	147	5	21.4	–10.0	4
	20.2	T. S. Hanemann, pres.	613	–3	1	3978		3			3
NAL	8180.3	R. D. Walter, chmn. & CEO	942	–4	0	3313	228	1	NA	–1.1	NA
H	13.5	J. C. Kane, pres. & COO‡	729	–4	0	3226		2			NA
T	34654.0	F. Hall, chmn., pres. & CEO*‡	1660	NA	6388	NA	39	NA	–4.7	–170.1	NA
	–9.4	R. J. Floto, exec. v-p‡	603	100	0	NA		NA			NA
		*Became CEO 6/4/95. May include preliminary information.									
LLE	9689.1	S. P. Goldstein, chmn. & CEO	1050	–32	0	4864	66	4	–5.1	–710.3	5
	–41.6	H. Rosenthal, pres. & COO	788	–24	0	NA		NA			NA
STROM	4206.3	R. A. Johnson, co-chmn.	345	–45	87	1670	108	1	13.0	–8.3	1
	11.9	J. J. Whitacre, co-chmn.	346	–45	0	1277		1			1
COSTCO	18600.9	J. D. Sinegal, pres. & CEO	306	2	0	7105	NA	NA	10.9	–9.1	4
	13.8	E. B. Maron, Jr., exec. v-p‡	342	–4	0	1061		NA			1
, ROEBUCK	34925.0	E. A. Brennan, chmn. & CEO†	3098	87	13252**	22675	197	4	20.6	NA	3
	25.1	A. C. Martinez, chmn. & CEO*	2197	6	3034	9736		4			1
		*Became CEO 8/10/95. **Includes $4,866,630 in retirement severance.									
ES	3068.1	T. G. Stemberg, chmn. & CEO	704	8	0	2553	199	1	10.8	99.8	1
	13.0	M. E. Hanaka, pres. & COO	571	41	0	NA		NA			NA
		May contain data from a preliminary source.									
REEN	10682.3	C. R. Walgreen III, chmn. & CEO	1422	16	492	4927	142	3	17.9	1.0	3
	18.1	L. D. Jorndt, pres. & COO	1032	21	360	3453		3			3
SERVICE INDUSTRIES (SERVICE)											
NING-FERRIS	5917.3	W. D. Ruckelshaus, chmn. & CEO	1716	36	591	5471	120	3	12.8	13.0	3
	13.6	B. E. Ranck, pres. & COO*	1008	38	0	2944		3			3
		*Became CEO 10/1/95.									
MBIA/HCA	17695.0	R. L. Scott, pres. & CEO	1215*	–1	870	4032	240	2	15.7	60.8	2
HCARE	15.7	D. T. Vandewater, COO	902*	15	273	8951		4			4
		*Excludes $870,000 and $273,000 (respectively) bonus paid in restricted stock.									
ONNELLEY	6511.8	J. R. Walter, chmn. & CEO	1491	11	3509	8436	126	4	12.3	8.3	4
S	13.7	J. P. Ward, exec. v-p‡	581	28	990	2523		2			3
I	9189.0	K. L. Lay, chmn. & CEO	2650	7	5358	26598	174	5	15.3	27.9	4
	17.0	R. D. Kinder, pres. & COO	1841	13	1669	11681		5			5
AL EXPRESS	9802.6	F. W. Smith, chmn., pres. & CEO	1312	9	0	3133	136	2	12.3	98.4	2
	13.0	W. J. Razzouk, exec. v-p*‡	699	–26	164	2659		2			2
		*Resigned 2/1/96.									
	9644.2	L. G. McCraw, chmn. & CEO	1756	16	508	9393	162	3	15.9	4.8	3
	16.1	H. K. Coble, vice-chmn.	794	7	541	5907		4			4
NE PARTS	5261.9	L. L. Prince, chmn. & CEO	1012	5	411	3756	131	2	18.5	5.3	2
	18.7	T. C. Gallagher, pres. & COO	711	5	214	2563		2			2
GRAINGER	3276.9	R. L. Keyser, pres. & CEO	1186	3	0	3219	114	2	14.7	7.4	2
	15.8	J. D. Fluno, vice-chmn.	1012	–12	1763	4851		4			4
HSOUTH	1556.7	R. M. Scrushy, chmn. & CEO	6738	110	646	13324	221	4	9.7	40.7	4
	14.4	J. P. Bennett, pres. & COO	972	60	116	2415		1			2
NA	4672.0	D. A. Jones, chmn. & CEO	1537	–21	685	8876	NA	NA	14.1	NA	NA
	15.5	W. T. Smith, pres. & COO	1203	–18	0	5953		NA			NA

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES: $ MILLIONS / ROE: %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP. $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROF: ROE %	CHANGE IN ROE %	R
MANOR CARE	1186.2	S. W. Bainum, Jr., chmn., pres. & CEO	916	25	0	2417	151	2	14.1	–28.2	
	12.4	R. C. Hazard, Jr., co-chmn.	561	8	0	1561		1			
PACIFICARE HEALTH SYSTEMS	4020.5	A. R. Hoops, pres. & CEO	928	10	2359	6297	194	3	18.4	–31.1	
	15.1	J. Folick, exec. v-p & COO‡	600	39	411	2225		1			
TENET HEALTHCARE	4671.2	J. C. Barbakow, chmn. & CEO	1600	–14	0	NA	170	NA	14.2	79.0	
	16.3	M. H. Focht, pres. & COO	1010	–10	0	4415		3			
WMX TECHNOLOGIES	10247.6	D. L. Buntrock, chmn. & CEO	3630	40	0	7708	79	4	13.8	–38.1	
	13.2	P. B. Rooney, pres. & COO*	2369	17	0	9781		5			
		*Some compensation also listed under Wheelabrator Technologies.									
31 STEEL (INDUSTRIAL: LOW TECH)											
NUCOR	3462.0	F. K. Iverson, chmn. & CEO	1163	1	946	5441	147	2	18.3	107.9	
	21.0	J. D. Correnti, pres. & COO	874	1	669	3566		3			
USX-U. S. STEEL GROUP	6456.0	T. J. Usher, chmn. & CEO-USX Corp.*	1580	53	1838	5975	99	4	NA	NA	
	20.9	C. A. Corry, chmn. & CEO-USX Corp.†	1244	–43	0	5654		5			
		*Became CEO 7/1/95. Compensation also listed under USX-Marathon Group.									
32 TELECOMMUNICATIONS (TELECOMMUNICATIONS)											
ALLTEL	3109.7	J. T. Ford, chmn., pres. & CEO	1235	0	234	4453	135	2	17.3	4.7	
	18.3	F. X. Frantz, sr. v-p	477	10	102	1526		2			
AMERITECH	13427.8	R. C. Notebaert, pres. & CEO	1968	28	460	5984	132	2	22.4	48.7	
	28.6	O. G. Shaffer, exec. v-p & CFO‡	838	372	29	NA		NA			
AT&T	79609.0	R. E. Allen, chmn. & CEO	3258	–15	2515	15568	135	5	18.6	–96.0	
	0.8	V. A. Pelson, v-p	1492	–19	2528	8673		5			
BELL ATLANTIC	13429.5	R. W. Smith, chmn. & CEO	1914	19	263	6639	146	3	23.1	58.8	
	28.1	J. G. Cullen, vice-chmn.	947	23	288	3028		2			
BELLSOUTH	17886.0	J. L. Clendenin, chmn., pres. & CEO	1568	6	2735	7612	186	3	12.0	10.0	
	13.2	F. D. Ackerman, vice-chmn. & COO	1030	19	1187	3974		3			
DSC COMMUNICATIONS	1422.0	J. L. Donald, chmn., pres. & CEO	5595*	–32	13588	48965	335	5	16.5	199.6	
	17.1	G. F. Montry, sr. v-p & CFO	1130*	–35	3232	14849		4			
		*Excludes portion of bonus paid in restricted stock.									
FRONTIER	2143.7	R. L. Bittner, chmn., pres. & CEO	1235	63	223	3417	182	1	14.3	45.7	
	16.9	M. C. Moses, vice-chmn. & CFO‡	566*	14	0	1520		2			
		*Includes compensation paid by ALC prior to acquisition.									
GTE	19957.0	C. R. Lee, chmn. & CEO	2301	15	1715	9007	143	4	18.8	29.2	
	22.8	K. B. Foster, pres.	1716	12	848	7188		4			
MCI	15265.0	B. C. Roberts, Jr., chmn. & CEO	2422	33	0	9357	133	4	9.3	–69.5	
	5.7	G. H. Taylor, pres. & COO	1402	44	128	7727		4			
NYNEX	13406.9	I. G. Seidenberg, vice-chmn. & pres.	1535	94	339	4122	144	2	8.0	32.5	
	17.9	F. V. Salerno, vice-chmn.	1278	53	289	4044		3			
PACIFIC TELESIS	9042.0	P. J. Quigley, chmn., pres. & CEO	1418	43	304*	4697	141	3	24.0	245.7	
	47.9	D. W. Dorman, pres. & CEO-Pacific Bell	1088**	35	1428	NA		NA			
		*Excludes $690,687 on exercise of AirTouch Communications stock options. **Includes $300,000 loan forgiveness.									
SBC COMMUNICATIONS	12669.7	E. E. Whitacre, Jr., chmn. & CEO	2610	18	2200	13367	167	4	23.1	119.9	
	30.8	R. S. Caldwell, pres.‡	922	18	437	3558		2			
SOUTHERN NEW ENGLAND TELECOMM.	1838.5	D. J. Miglio, chmn., pres. & CEO	585	–10	0	1826	127	1	10.0	30.4	
	16.6	D. R. Shassian, sr. v-p & CFO‡	405	–7	0	866		1			
SPRINT	13556.0	W. T. Esrey, chmn. & CEO	1556	–23	1058	8818	167	3	17.4	36.7	
	20.6	R. T. LeMay, pres. & COO	966	–20	450	5277		3			
TELLABS	635.2	M. J. Birck, pres. & CEO	510	3	1236	3187	897	1	22.0	164.6	
	26.7	B. J. Jackman, pres.-sub.	358	3	444	3227		1			
U. S. ROBOTICS	1091.7	C. G. Cowell, chmn., pres. & CEO	2799	92	15770	21050	856	2	18.2	9.2	
	19.9	J. McCartney, exec. v-p	1739	59	16153	28077		3			
WORLDCOM	3639.9	B. J. Ebbers, pres. & CEO	2985	104	0	12209	226	3	3.2	NA	
	12.0	R. A. Wilkins, pres. & CEO-WilTel	728	NA	1000*	NA		NA			
		May contain data from a preliminary source. *Includes $1 mil related to termination of contract rights									
33 TEXTILES, APPAREL (CONSUMER PRODUCTS)											
NIKE	5594.4	P. H. Knight, chmn. & CEO	1678	73	0	3743	171	2	20.0	0.9	
	22.4	T. E. Clarke, pres. & COO	1141	136	0	3627		2			
VF	5062.3	L. R. Pugh, chmn. & CEO	1308	–30	4031	9897	106	4	13.3	–57.0	
	8.7	M. J. McDonald, pres.*	895	–31	0	3180		2			
		*Became CEO 1/1/96.									
34 TIRE & RUBBER (INDUSTRIAL: LOW TECH)											
GOODYEAR TIRE & RUBBER	13165.9	S. C. Gault, chmn. & CEO*	2207	1	14343	31032	139	5	20.0	–2.2	
	18.6	H. M. Wells, vice-chmn., pres. & COO†	1076	–27	1165	7215		4			
		*Left office 12/31/95.									

FOOTNOTES ON PAG

CUTIVE COMPENSATION SCOREBOARD

ANY	1995 SALES: $ MILLIONS / ROE: %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
TOBACCO (CONSUMER PRODUCTS)											
CAN BRANDS	5904.9	T. C. Hays, chmn. & CEO	1932*	50	379	6885	125	3	16.3	–31.3	4
	14.0	P. M. Wilson, chmn.-Gallaher‡	918	8	170	2675		2			3
		*Includes $201,469 tax reimbursement related to funding retirement benefits.									
MORRIS	53139.0	G. C. Bible, chmn. & CEO	2497	31	0	11285	129	3	35.6	–0.4	3
	39.2	J. M. Kilts, exec. v-p‡	1469	24	1639	7626		4			3
BISCO	16008.0	C. M. Harper, chmn. & CEO*	3395	–68	0	16862	75	5	3.6	–42.3	5
NGS	5.2	H. J. Greeniaus, pres.	3427**	–8	700	9962		5			5
		*Left office 12/5/95. **Includes $1.8 mil. tax reimbursement.									
	1325.4	V. A. Gierer, Jr., chmn., pres. & CEO	2685	11	0	7445	115	3	111.1	142.0	1
	146.4	J. J. Bucchignano, exec. v-p & CFO	1235	15	0	4200		3			1
UTILITIES (UTILITIES)											
CAN ELECTRIC	5670.3	E. L. Draper, Jr., chmn., pres. & CEO	921*	11	345	2942	144	3	10.9	11.4	3
R	12.3	P. J. DeMaria, exec. v-p	444*	9	154	1443		2			2
		*1995 bonus estimated.									
IORE G&E	2934.8	C. H. Poindexter, chmn. & CEO	785	19	0	2118	141	2	10.4	20.7	2
	10.6	E. A. Crooke, pres. & COO	585	15	0	1539		2			2
INA	3006.6	S. H. Smith, Jr., chmn. & CEO	998	22	279	3266	143	3	12.9	–2.1	3
R & LIGHT	14.1	W. Cavanaugh III, pres. & COO	702	21	196	2338		3			3
AL &	3735.0	E. R. Brooks, chmn., pres. & CEO	817	32	0	2121	113	2	11.5	–3.1	2
WEST	12.6	T. V. Shockley III, exec. v-p	521	29	0	1383		2			2
GY	3031.4	J. H. Randolph, chmn. & CEO	868	19	50	NA	144	NA	6.4	29.1	NA
	13.6	J. E. Rogers, vice-chmn., pres. & CEO*	872	14	832	NA		NA			NA
		*Became CEO 12/1/95.									
LIDATED	3307.3	G. A. Davidson, Jr.,	789	38	0	2344	112	3	6.0	–88.6	5
AL GAS	1.0	L. D. Johnson,†	401	28	547*	1756		3			5
		*Includes $160,250 severance pay.									
ION	4651.7	T. E. Capps, chmn., pres. & CEO	942	12	132	2932	124	3	10.3	–13.7	3
RCES	9.0	J. T. Rhodes, pres. & CEO-sub.	679	17	78	2061		4			4
	1271.0	P. H. Forster, chmn. & CEO‡	916	9	784	4626	143	4	13.8	1.8	4
	14.1	A. M. Hill, pres. & COO‡	589	9	319	2539		4			3
ERGY	3635.5	J. E. Lobbia, chmn. & CEO	635	11	0	1834	124	1	12.9	–34.0	3
	11.8	A. F. Earley, Jr., pres. & COO	479	15	0	NA		NA			NA
POWER	4676.7	W. H. Grigg, chmn. & CEO	997	35	241	2720	147	2	13.4	27.8	1
	13.9	W. A. Coley, pres.	598	44	151	1675		2			2
I	8404.7	J. E. Bryson, chmn. & CEO	1407	112	0	3054	95	4	11.1	–6.3	3
	11.6	B. C. Danner, sr. v-p	733	117	0	1496		3			3
GY	6274.4	E. Lupberger, chmn., pres. & CEO	1297	38	790	4477	105	5	6.6	–25.9	5
	7.5	J. L. Maulden, vice-chmn.	814	30	435	2811		5			5
A	3055.6	J. B. Critchfield, chmn. & CEO	972	4	466	3979	127	4	NA	NA	NA
ESS	11.5	R. Korpan, pres. & COO	697	5	284	2665		4			NA
OUP	5592.5	J. L. Broadhead, chmn. & CEO	1557	7	1041	7001	145	5	11.8	3.5	4
	12.6	P. J. Evanson, pres.	811	79	156	1929		3			3
AL PUBLIC	3804.7	J. R. Leva, chmn., pres. & CEO	918	6	44	2783	142	2	10.8	39.9	2
IES	14.8	P. R. Clark, pres.-sub.	482	24	317	1653		2			2
ERN STATES	2568.6	J. J. Howard, chmn., pres. & CEO	973	17	329	3271	132	3	12.0	45.6	2
R	13.0	E. J. McIntyre, v-p & CFO	327	5	75	1102		1			1
DISON	2465.8	W. R. Holland, pres. & CEO	683	23	26	1733	121	1	8.1	16.5	2
	12.2	H. P. Burg, sr. v-p & CFO	284	7	57	861		1			1
C GAS	9621.8	S. T. Skinner, chmn. & CEO	1075	51	196	2840	103	3	12.5	11.9	2
TRIC	14.8	R. D. Glynn, Jr., pres. & COO‡	589	88	48	1322		3			1
CORP	3400.9	F. W. Buckman, pres. & CEO	659	–18	289	NA	124	NA	12.4	233.6	NA
	13.0	C. E. Robinson, chmn.-Pacific Telecom	706	–3	283	2694		4			2
NDLE	4967.5	P. M. Anderson, pres. & CEO*	789	48	6	1845	181	1	11.2	–0.2	1
RN	13.6	G. L. Mazanec, vice-chmn.	587	11	149	2202		2			4
		*Became CEO 4/1/95.									
NERGY	4186.2	J. F. Paquette, Jr., chmn. & CEO	898	13	736	4021	133	4	11.6	24.5	3
	12.9	C. A. McNeill, Jr., pres. & CEO*	718	39	153	1924		3			3
		*Became CEO 4/12/95.									
IAC ELECTRIC	1876.1	E. F. Mitchell, chmn. & CEO	863	36	136	2552	131	2	8.8	–59.5	4
R	4.1	H. L. Davis, vice-chmn. & CFO	625	35	104	1878		3			4
	2751.8	W. F. Hecht, chmn., pres. & CEO	489*	11	414	1834	110	2	11.5	–2.2	1
RCES	12.7	F. A. Long, exec. v-p & COO	358	9	237	1268		2			2
		*Excludes bonus paid in restricted stock.									
C SERVICE	6164.1	E. J. Ferland, chmn., pres. & CEO	682*	–25	246	2906	120	3	12.2	15.4	3
PRISES	12.2	L. R. Eliason, pres.‡	489*	554	26	NA		NA			NA
		*1995 bonus has not been determined.									
	1990.1	R. L. Kuehn, Jr., chmn., pres. & CEO	1461	32	789	6071	161	4	14.2	49.2	4
	12.8	D. G. Russell, exec. v-p	650	–4	161	4274		5			4

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1995 SALES $ MILLIONS / ROE %	EXECUTIVE	1995 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1994	LONG-TERM COMP $000	1993-95 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROF: ROE %	CHANGE IN ROE %	R
SOUTHERN	9179.5	A. W. Dahlberg, chmn., CEO & pres.*	849	17	866	3819	146	3	12.6	–3.9	
	12.7	T. G. Boren, pres.-sub.	559	NA	50	NA		NA			
		*Became CEO 3/1/95.									
TECO ENERGY	1392.3	T. L. Guzzle, chmn. & CEO	960	13	0	2808	138	2	14.9	2.3	
	16.0	G. F. Anderson, pres. & COO	657	10	150	1981		3			
TEXAS UTILITIES	5638.7	J. S. Farrington, chmn. & CEO*	990	23	348	3631	118	4	3.9	–125.7	
	–2.4	E. Nye, pres. & CEO	819	32	292	2866		5			
		*Left office 5/1/95.									
UNION ELECTRIC	2102.7	C. W. Mueller, pres. & CEO	577	11	0	1389	131	1	13.1	–2.8	
	13.0	C. J. Schukai, sr. v-p	318	10	0	857		1			
WHEELABRATOR TECHNOLOGIES	1451.7	P. B. Rooney, chmn. & CEO	0*	–100	0	4382	92	5	12.1	–38.0	
	10.5	J. M. Kehoe, Jr., pres. & COO	505	–7	0	1603		4			
		*Compensated by WMX Technologies.									
WILLIAMS	2855.7	K. E. Bailey, chmn., pres. & CEO	822*	49	830	5112	237	3	11.4	5.1	
	9.4	B. E. O'Neill, pres.	553	34	115	1725		1			
		*Excludes portion of bonus paid in restricted stock.									

ALPHABETICAL LIST OF COMPANIES

The number following each identifies the Scoreboard category under which it is listed

Abbott Laboratories 11
Aetna Life & Casualty 21
AFLAC 21
Ahmanson (H. F.) 21
Air Products & Chemicals 8
Albertson's 28
Alco Standard 9
AlliedSignal 9
Allstate 21
Alltel 32
Aluminum Co. of America 18
Amerada Hess 20
America Online 22
American Brands 35
American Electric Power 37
American Express 21
American General 21
American Home Products 11
American Intl Group 21
Ameritech 32
Amgen 11
Amoco 20
AMP 12
AMR 2
Anadarko Petroleum 20
Analog Devices 12
Anheuser-Busch 6
AON 21
Apple Computer 22
Applied Material 15
Archer-Daniels-Midland 13
Arco Chemical 8
Ashland 20
AT&T 32
Atlantic Richfield 20
Automatic Data Processing 22
Autozone 29
Avery Dennison 19
Avon Products 25
Baker-Hughes 23
Baltimore Gas & Electric 37
Banc One 5
Bank of Boston 5
Bank of New York Co. 5
BankAmerica 5
Bankers Trust New York 5
Barnett Banks 5
Baxter International 11
[illegible] 22
[illegible] 21
[illegible] 11
Bell Atlantic 32
BellSouth 32
Berkshire Hathaway 21
Black & Decker 15
Boatmen's Bancshares 5
Boeing 1
Bristol Myers Squibb 11
Burlington Northern Santa Fe 27
Browning-Ferris 30
Burlington Resources 20
Campbell Soup 13
Cardinal Health 29*
Carnival 17
Carolina Power & Light 37
Caterpillar 15
Central & South West 37
Chevron 20
Chrysler 4
Chubb 21
Cigna 21
Cincinnati Financial 21
CINergy 37
Cisco Systems 22
Citicorp 5
Clorox 25
CNA Financial 21
Coastal 20
Coca-Cola 6
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Wachovia 5
Walgreen 29
Warner-Lambert 11
Washington Post 26
Wells Fargo 5
Westinghouse Electric
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FOOTNOTES ON PAGE

Patricia Kaneb, CEO
Priscilla of Boston
E VOW TO HONOR AND PROTECT HER 10,000 TIMES A YEAR.
ost women, a wedding dress is a once-in-a-lifetime purchase. To Priscilla of Boston, it's the mainstay of a
year-old business that sells 10,000 nuptial gowns each year. And to make sure that the company is cov-
properly, Priscilla of Boston turns to Chubb. For Priscilla's five stores and one factory, Chubb proposed a
ue package of protection that not only covers the cost of goods, but their selling price as well. As one of
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INVESTIGATIONS

DO THESE BEARS HAVE BLOOD ON THEIR CLAWS?

Regulators are probing possible manipulation in short-sellers' attack on Organogenes

For nearly a decade, a Canton (Mass.) startup called Organogenesis Inc. has been working to develop a product that will replicate human skin. Now, after spending $95 million, the company is on the verge of marketing what it calls Graftskin, which will be used to heal chronic wounds.

Developing a promising new technology hasn't been Organogenesis' biggest challenge, though. Over the past year, it has been battling several professional investors who are betting that Graftskin will never make it to the marketplace. These investors have sold short some 6 million shares of Organogenesis—44% of the outstanding float—to drive down the stock price. Short-sellers profit by borrowing stock, then selling it with the hope that they will be able to purchase shares at a lower price to replace the borrowed stock.

So-called bear raids are not uncommon. Nor are they necessarily illegal. Few, if any, participants in bear raids have been found guilty of securities fraud. But several unusual aspects of the Organogenesis attack have attracted the attention of federal prosecutors and regulators. According to people close to the investigation, the U. S. Attorney's office in Brooklyn, the Securities & Exchange Commission, and the Chicago Board Options Exchange are looking at unusual trading patterns that suggest short-sellers may be collaborating, which could constitute an illegal stock-manipulation scheme. Authorities plan to scrutinize the trading activities of such short-sellers as Gilford Partners in Chicago, White Rock Capital in Dallas, and Michael Steinhardt, who is liquidating his well-known New York investment funds.

White Rock declines comment. So does Steinhardt partner Karen Cook. Gilford managing partner H. Robert Holmes confirms that the firm has received a letter from the SEC but denies being part of any manipulation scheme.

Authorities are also focusing on Evan Sturza, a biotech-newsletter writer who is widely quoted in the financial press and who may have played a central role in the Organogenesis bear raid. The authorities are looking at whether Sturza has been illegally orchestrating a stock manipulation. And they are examining whether some investors are trading based on advance word of upcoming negative reports by Sturza, which could constitute illegal insider trading.

"ENTERTAINING." Sturza says the SEC has asked for information, but he denies any role in a manipulation. "The conspiracy story is entertaining," he says. He also denies tipping investors to upcoming reports or trading himself ahead of his reports.

Boston-based Organogenesis was founded in 1985 by Massachusetts Institute of Technology scientists. To make Graftskin, the company's core pro technicians lay down a base of coll a fibrous protein found in human animal connective tissue. They the cells from foreskins of newly ci cised baby boys. Each foreskin c used to produce 200,000 skin pa Unlike its competitors, Organoge produces full-thickness skin—both mal and a thin outer epidermal "This is an extremely promising technology," says Dr. William H. stein, a dermatology expert at the versity of Miami School of Medicin has no ties to Organogenesis. The & Drug Administration is current viewing the company's applicati market Graftskin.

Organogenesis is just the sort of pany that shorts like to target: with experimental technology, a marketed product, and, as yet, no

CLEAN ROOM: *Making Graftskin at Organogenesis' Canton (Mass.) plant*

Sturza alleges such additional trou-
s false product starts, manage-
miscues, excessive optimism, and
lled collaborations with other com-
. "The company has been wrong
years," says Sturza. "That's why
ch a popular short."

anogenesis has met repeatedly
ederal authorities to aid the feder-
be. Chairman and CEO Herbert
ein, 67, a venture capitalist who
get the company off the ground,
avid T. Rovee, 56, the company's
ent. decline comment. But the
ny says that the bear raid has
a distraction. We plan to vigorous-
tect our shareholders from this
ght."

anogenesis investors are more out-
n. Says Hans H. Estin, vice-chair-
f North American Management
in Boston, which owns a 10%
"In my 22 years in the business, I
never seen such abusive and vin-
tactics to knock down a stock."

UZZ. Over the past year, say Or-
enesis shareholders, Sturza and an
e of Gilford Partners have phoned
ages, large investors, and individ-
rganogenesis shareholders, advis-
em to unload shares or short the
n the grounds that the company is
investment. They have also made
ntly false claims about the compa-
such topics as its clinical trials,
rganogenesis shareholders who re-
ceived such calls. And Gilford sent a critical letter to Organogenesis directors and telephoned a subsidiary of Sandoz Ltd., the giant Swiss drug conglomerate, when it was about to sign a marketing deal with the company. Holmes denies that Gilford phoned Sandoz and made false claims about the company. Sturza claims he called investors to "exchange information" about the company.

Holmes doesn't dispute that shorts spread the story this year that the FBI was probing whether Robert A. DiIanni, a former Organogenesis investor and an Allenwood federal prison inmate, was manipulating the stock from prison in cooperation with company execs. On Feb. 1, Gilford's Holmes wrote a letter offering to pay DiIanni a consulting fee to provide negative information about the company. On Feb. 15, CNBC correspondent Dan Dorfman prepared a report on an alleged FBI raid of the company stemming from information provided by the shorts. According to the company, Dorfman backed off when Organogenesis threatened legal action if the report was aired. A Dorfman spokesman says he has no comment.

A source in the prosecutor's office says the shorts' rumors are "absolutely false." The source adds that shorts have tried unsuccessfully to get the FBI involved. Francis J. DiMento, DiIanni's attorney, says his client never responded to Holmes and that the rumor is preposterous.

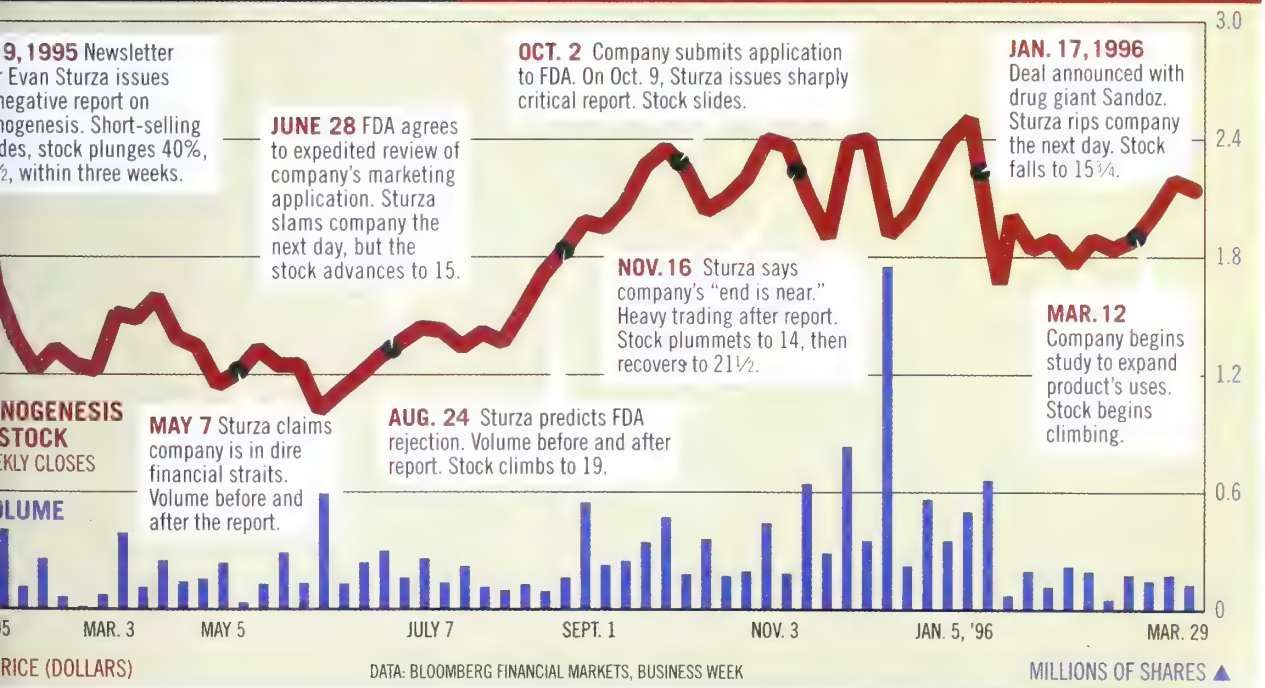
RED FLAG Shorts spread a story that the FBI had raided Organogenesis. Federal prosecutors say that rumor was "absolutely false"

POINT MAN. Much of the bear raid has revolved around Sturza, 34, a former stock market reporter for *Forbes*. He sells annual subscriptions at $295 for weekly faxed reports—called *Sturza's Medical Investment Letter*—which he produces from his Manhattan apartment. His stock recommendations are often picked up by Dorfman and many national business publications, including BUSINESS WEEK. They frequently spur sharp short-selling in many of the 50 biotech and drug stocks he tracks.

Investigators are looking at whether Sturza receives compensation from shorts for recommending short-selling of certain companies. And they are probing whether he receives kickbacks for tipping off an inner circle of investors to negative reports as part of a

nogenesis' Wild Ride

The biotech company's stock has been whipsawed by positive news from Organogenesis and negative reports from short-sympathizer Evan Sturza.



scheme to drive down Organogenesis stock, sources say. "That will be tough to prove," says Sturza. "Let them look all they want."

One investment firm, which declined to be identified but is cooperating with investigators, confirmed that it pays Sturza $18,000 a year to receive phone calls from him tipping it off to reports and recommendations that will appear in upcoming newsletters. Indeed, Organogenesis trading records show several examples of increased trading two to three days in advance of Sturza's Thursday-night newsletter faxes. "The understanding is that if you make money in a stock based on the tips, you pay Sturza some cash," says a principal in the firm. If the firm makes, say, a $200,000 profit, it pays Sturza $10,000 to $20,000, according to the firm.

Sturza denies he discloses the contents of his newsletter prior to publication. But he doesn't dispute receiving compensation from investment managers who make money on his tips. "Why shouldn't you get paid?" he says. "That's the way Wall Street works." Sturza also confirms that he has shorted Organogenesis and that he trades in stocks he writes about.

HOT TIP. John E. Colley, a Saratoga Springs (N. Y.) money manager, says that a year ago, Sturza offered him the $18,000 tip service free if Colley agreed to unload his Organogenesis holdings. When Colley declined, he says Sturza told him: "If you don't want to look like a fool, unload all your Organogenesis stock. I know what's coming down, this stock is going to tank." Colley says he asked if Sturza was heeding his own advice. "My friends and family are making millions," Colley says Sturza responded. Sturza called Colley's comments "a lie."

Long-term Organogenesis investors contend that the allegedly false and misleading information about the company spread by Sturza constitutes a repetitive pattern. Over the past 14 months, Sturza has written more than a dozen articles slamming the company, some of them apparently timed to counteract positive news. Investigators are looking at whether the pattern suggests a coordinated effort by Sturza and short-sellers to manipulate the stock.

Sturza's first salvo was fired on Feb. 9, 1995, when he forecast that Organogenesis' chance of success in a key clinical trial of its Graftskin was "no more than 25%." Trading records show that volume began rising a week before the report was published. Within two weeks, amid heavy short-selling, the share price plunged nearly 40%, to about 9½. But in March, the company announced that clinical trials showed Graftskin successful in healing chronic venous ulcers.

On May 7, Sturza claimed the stock was worth only $3 a share "given Organogenesis' dire financial position, its record of previous failures, its flawed Graftskin clinical trial results...." Trading greatly picked up 10 days before the report. In June, however, the FDA informed the company it would give an "expedited review" to its application to market the product. A month later, Stein raised $15 million in a private placement to fund further research and development.

When Organogenesis' stock nearly doubled, to 20, by early November on additional positive announcements, Sturza again went on the attack. In a Nov. 16 report, he claimed that "given Organogenesis' dire predicament... the end is near." Increased short-selling after the report pushed the share price back down 30%, to $14. The report seemed designed to deflate growing excitement about reports of an imminent marketing agreement with a major company—rumored to be Sandoz.

In November, according to an Organogenesis official, an eight-page anonymous letter was sent to Sandoz quarters in Basel, Switzerland, out the shorts' criticisms of Organoge and warning the drugmaker to rec er a deal. In response, Sandoz hire ditional consultants to investigat company. Organogenesis was giv clean bill of health. But the Sandoz keting deal, announced on Jan. 17 delayed up to six weeks by the s letter-writing campaign, Organoge

THICK SKIN Unlike rival products, Graftskin both dermal and epidermal layers. A Universit of Miami dermatology expert with no ties to the company calls it "extremely promising

FIGHTING BACK: *CEO Stein and President Rovee*

says. The licensing deal calls for S to invest up to $37.5 million and Organogenesis royalties, the exper regulatory approvals outside the and marketing costs. A Sandoz sp man in New York had no commen

CLASS ACTION. After the announce short-sellers knocked the agreemen unleashed a new burst of short-se which pushed Organogenesis stock 25% in three days. It was accompl with a technique called "married p in which investors buy both the co ny's shares and puts—options t stock at a specified price over a spe period of time—whose expiration be a few weeks down the road in ipation of a company announce When shorts want to stifle a rise stock price, they sell the shares bought on the open market, which ates downward pressure on the price. This, in turn, forces all pu vestors, not just those involved i ploy, to sell stock to limit their loss several investors use the techniq the same time, the market is fl with selling, which can drive the down even further. Sturza confirms the married-put technique was par responsible for the price drop afte Sandoz announcement.

So far, short-sellers apparently underestimated the resolve of the pany and its long-term investors: S holders are preparing a class a against Sturza and a group of h funds alleging stock manipula Organogenesis can only hope Graf proves as exciting as the full-blown fare it has sparked in the stock ma

By Michael Schroed
Washin

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MUTUAL FUNDS

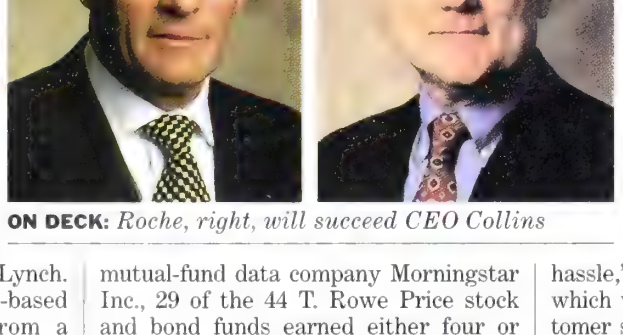
THE UNFLAPPABLE T. ROWE PRICE

Yachtsman Collins' departure won't rock the boat

For nearly 12 years as president and chief executive officer of T. Rowe Price Associates Inc., George J. Collins did all he could to protect the big mutual-fund group's stockholders from surprises. But at the Apr. 12 annual meeting, Collins plans to deliver a big one. The 55-year-old fund executive and avid sailor will announce both his retirement and his successor—George A. Roche, 54, the firm's chief financial officer. Collins will leave by next April to captain a 64-foot yacht in the grueling nine-month Whitbread Round the World Yacht Race. "It is one of those life-defining acts," he says of his planned adventure. "We're going to be playing iceberg tag."

Collins knows a few things about dodging dangerous giants, having successfully piloted his firm around behemoths such as Fidelity, Vanguard, and Merrill Lynch. Over the past decade, Baltimore-based T. Rowe Price has evolved from a stodgy investment-counseling firm to one of the industry's strongest and best-run fund companies: Assets under management have swelled from $19 billion to $81 billion, two-thirds of which are in mutual funds; the number of funds has grown from 23 to 68; and fund shareholder accounts have risen from 1 million to 4 million. Since the firm's 1986 initial public offering, the stock is up nearly tenfold, more than four times the gain of the Standard & Poor's 500-stock index during the period.

Those figures are a direct result of the top-notch investment returns that Price's mutual funds have been racking up. According to the latest ratings from mutual-fund data company Morningstar Inc., 29 of the 44 T. Rowe Price stock and bond funds earned either four or five stars, the two highest ratings for risk-adjusted performance.



ON DECK: *Roche, right, will succeed CEO Collins*

TAKEOVER BAIT? Collins' departure probably won't lead to radical changes. There's not much need, and Roche has been part of a team of executives, including Collins and managing directors James S. Riepe, 52, and M. David Testa, 51, that have run the firm since the early 1980s. Roche says team management will remain. "A lot of companies h single individual make the decisio says. "We don't."

When Collins and his cohorts over, T. Rowe Price and its funds hardly standout performers. But took critical steps that, for the broke the mold. They revampe search, broadening the role of an and recruiting fresh talent. They ended the heavy dependence on g stocks (firm founder T. Rowe Pric neered growth-stock investing) a troduced more conservative equity and expanded the bond fund offer

Top-performing fund managers can earn big bucks. Veteran fund ager John H. Laporte, who pilote New Horizons Fund to a 55.4% r last year, earned $250,000 $1.3 million bonus. And in t the firm public—only a ha of mutual-fund companies management can use sto currency to retain talent. 30% of the stock is held b ployees, spread through ranks.

Perhaps the most impo strategic decision that the lins crowd made was an charge into the 401(k) bus which produces a steady, able stream of money f funds to invest. "Back th looked like an administr hassle," said Riepe. But T. Rowe which was already known for goo tomer service, plied its talents to s a multitude of plan sponsors and sands of employees with custo payroll deductions and persona quarterly reports. Price's 401(k) ness now has $20 billion in asset 800,000 participants, giving the f strong foothold in a business in many competitors are still tryi climb to the first rung.

With the industry consolidating, tential threat to Price these day takeover. T. Rowe Price is the la publicly-held fund company after F lin Resources Inc., and has long be the top of every suitor's list, thoug body has made a bid. "I suspect t a takeover premium already built the stock price," says analyst Da Hilder at Morgan Stanley & Co. agement has long dismissed that "We're just not interested," says R

Barring a takeover, the main lenge confronting Collins—and Roche—is to continue doing what have already proved masters in e ing: getting around those icebergs

By Roy Furchgott in Balti

T. ROWE PRICE'S ASSETS HAVE SOARED...

...AND WALL STREET HAS TAKEN NOTICE

DATA: T. ROWE PRICE ASSOCIATES INC., BLOOMBERG FINANCIAL MARKETS

In the desert,

they call something you can see in the distance but disappears once you get there a mirage. Next thing you know, they'll call it Social Security.

It has been suggested that, in the not too distant future, Social Security as we have known it could cease to exist. A mere shadow of its former self, at best. Clearly, the need for financial self-reliance has never been greater. And while it might surprise you, John Hancock helps millions of individual and institutional investors to achieve precisely this goal each and every year. Just as we have for the last 130.

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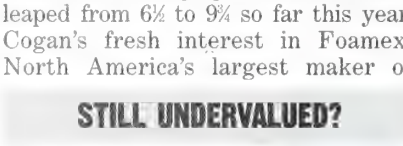
BY GENE G. MARCIAL

MORE SPRING IN FOAMEX

Wall Street veteran Marshall Cogan, who ran legendary brokerage Cogan Berlind Weill & Levitt during the go-go 1960s, is back buying stock, this time in Foamex International (FMXI), of which he's been chairman and CEO since it went public in 1993. In recent weeks, he and other Foamex brass have been loading up: The shares have leaped from 6½ to 9¾ so far this year. Cogan's fresh interest in Foamex, North America's largest maker of polyurethane foam and foam products, has enticed other pros to jump in.

STILL UNDERVALUED?



What's the deal? The company has been buying back its shares—1 million so far—under a plan to repurchase 2 million, or 8% of those outstanding. If Cogan doesn't succeed in his goal of boosting the value of Foamex stock in fairly short order, he's likely to take the company private, according to one money manager who has been buying up shares.

"He thinks—and many of us agree—that the stock is too cheap," says this pro. "Marshall knows that one of the big European chemical companies will buy the company if he shops it around," he adds. "But he'll be happier, I know, buying the company himself." This money runner figures the stock is worth at least 15.

Cogan has been trying to turn around the sleepy foammaker, which was hurt last year by a jump in chemical costs and slippage in demand for foam. He has closed 13 plants and is talking with possible buyers for two units: JPS Automotive, which makes fabrics and carpets for cars, and Perfect Fit, a maker of bedding and comforters sold through the likes of Sears, J.C. Penney, and Federated Department Stores.

Analysts expect the asset sales to help Cogan pare down debt, currently $732 million, to $400 million this year. The restructuring is expected to reduce costs and improve margins.

Sales—without JPS and Perfect Fit—will drop from 1995's $1.2 billion to $1.07 billion in 1996, but "the greater impact on earnings is from improvements in gross margins and a reduction in interest," says Harris Cohen, an analyst at Furman Selz, a New York investment bank. He figures interest will drop from $81 million in 1995 to a rate of $45-$50 million in the second half of the year, as proceeds from asset sales are used to pay down debt.

VACATION BREAK GETS SET TO PARTY

Remember time-sharing? No, it hasn't gone away. In fact, it's staging a fast comeback, this time as vacation ownership interests (VOIs).

A few years back, "time-share interest was viewed with as much disdain as a leper at a garden party," says Dennis McAlpine of Josephthal Lyon & Ross. That changed when Walt Disney, Hilton Hotels, and Marriott made time-sharing a moneymaker.

But McAlpine says Vacation Break USA (VBRK), a direct marketer of VOIs, is the stock to bet on. This company is a pure play in "the fastest-growing segment of the travel industry," he says. It went public in December at 5 and is now at 7½. He expects the stock to double in a year, as investors become more comfortable with the industry and the company.

He figures Vacation Break, whose revenues jumped to $117.5 million last year, up from 1994's $104 million, will make $1.15 to $1.20 a share this year, up from last year's 90¢. The company says sales of VOIs in 1995 rose to $40.3 million, up from $27.6 million in 1994. The figures don't include deferred sales of VOIs in projects under development.

Initially a marketer of VOIs for other resort owners, Vacation Break acquired its first resort in 1993 and has since acquired three more. It now owns properties totaling more than 22,000 VOIs, and has over 15,000 VOIs for sale. Vacation Break also earns decent money in financing VOI sales.

At its current price-earnings rat
about 5, based on 1996 profit estim
"Vacation Break is the cheapest s
among its peers," argues McAlpine

DATRON COMES IN LOUD AND CLEAR

Datron Systems (DTSI) has suff
two bad blows this year, sen
its stock reeling. In late January,
maker of wireless gear canceled
$8.8 million contract in the Middle
after the customer failed to secur
nancing. And in early March, it wa
of a $1.3 million loss, or 40¢ to 5
share, for the year ended Mar. 31.
alysts had expected a profit of
The shares fell from 16 to 13, w
they're trading now. No matter.
tron has fans who swear that
stock, which peaked at 25 in mid-1
is way undervalued.

One bull is Thomas Friedber
Genesis Merchant Group Securitie
San Francisco, who thinks Datro
"an exceptional value" given its op
tunities for earnings growth in the
two years. Datron, he notes, trade
only 11.6 times his fiscal 1997 estir
of $1.15, and 7.6 times 1998's estim
$1.75. He says Datron's book valu
about $12 a share—not far from its stock price. Friedberg sees the stock hitting 28 by late 1997.

REELING FROM DOUBLE WHAM

What's so hot about Datron? Its products include two-way radios and satellite communication systems and antennas. Customers include the State Dept., Drug Enforcement Administration, and foreign governments.

Datron has introduced a direct br
cast satellite (DBS) antenna for recei
digital-quality TV signals in motor ho
and trucks. It has signed up coast
coast distributors for its DBS mobile
tennas, he says, marking the last
before full-scale selling begins.

"The second half of 1996 should
much brighter as margins improve
new products are introduced," s
Matthew Desmond, analyst at *The*
Chip Review in Portland, Ore.

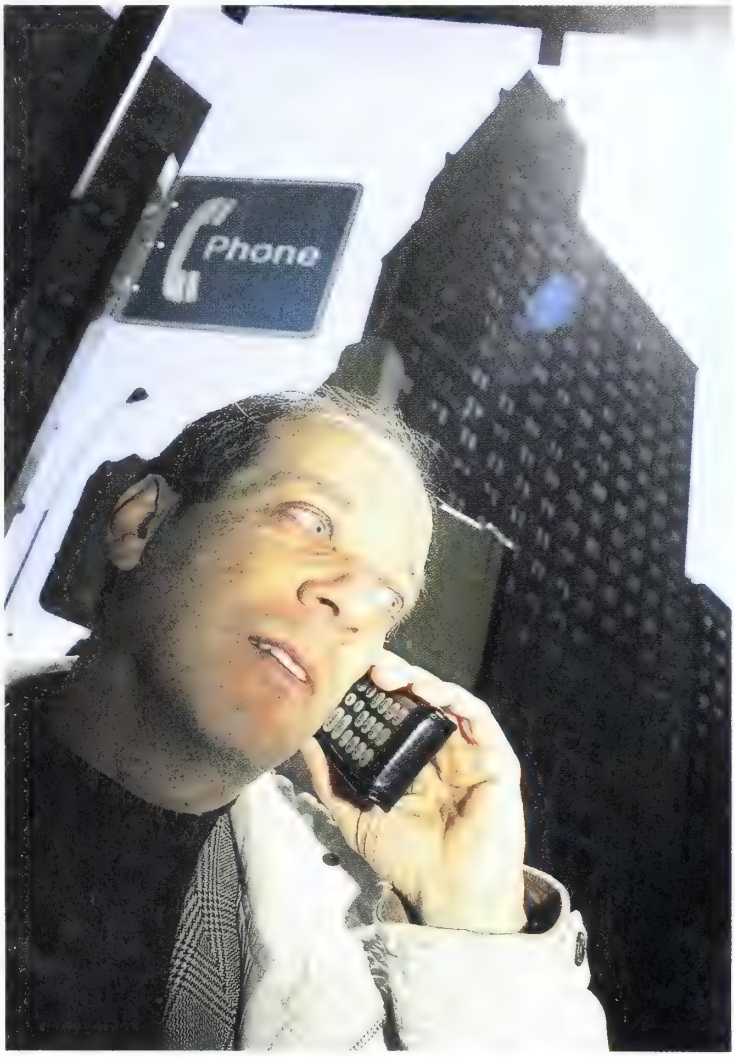
Y BEATING ESE LONG-DISTANCE RATES

and more, the technically adept are making cheap calls over the Internet

n his home in Guam, David C. kes used to pay as much as $1.25 minute to call relatives and back in the U.S. But now, as a hobbyist organization called ee World Dial-Up Project, he can ny of those people for just pen- minute. There's no scam involved illegal phone "phreaking." He's ing the Internet. Equipped with per software, personal computers anywhere on the Net can create apest voice-communication links . For the $15 to $20 a month Internet-access s charge, you ke all the calls nt—to anybody s the same set- th no limit on or destination.

es and other ally adept Inter- re taking advan- an imbalance in ing of communi- capacity, or dth. Phone com- charge accord- time and dis- -the longer you nd the farther l, the more you nternet connec- ven though they the same wires, d at flat monthly evised with E- mind, and the ion to an Inter- ess company is a local call. So, e right software some forbear- sound quality is to snuff—you g-distance call- Internet prices. the Internet, which has already swept through the computer business, rewriting the rules for phone companies, too? "In the short term, the answer is no, but in the longer term, yes," says Eli M. Noam, professor of economics at Columbia University. Clearly, the Net calling phenomenon, which began as an amusing pastime a year ago, is going mainstream. Technologically hip businesses are using Internet calling to bypass high international tolls and cut costs of nonvoice traffic such as faxes. An estimated 1.5 million Internet phone products have been shipped, although not all are in use. By yearend, Internet phoning will be a standard feature in Web browser programs from Netscape Communications Corp. and Microsoft Corp., opening Net calling to millions of Internauts.

"BEST MINDS." Phone companies point out the drawbacks of Internet calling—poor quality and the need to make sure the person you're calling is logged on—but many telecom executives admit that advancing technology will erase such limitations. "You have the best minds out there working on Internet calling.



TEC'S GANOR: *rriers oppose egulation r business*

Telephony On the Net

MOVERS AND SHAKERS

VOCALTEC Its I-phone is the leading software, but more than a dozen other companies are on its heels, including Quarterdeck and NetSpeak

VOXWARE Its voice-compression software was chosen by Netscape Communications for use in its Web browser

INTEL AND MICROSOFT They've rallied more than 100 companies around new telephone and video standards for the Net

HOW TO GET STARTED

VOICE-ON-THE-NET (VON) coalition offers a list of all Internet-calling products at www.von.com

FREE WORLD DIAL-UP PROJECT has volunteers working worldwide to patch Internet calls into local phone networks (www.pulver.com/fwd)

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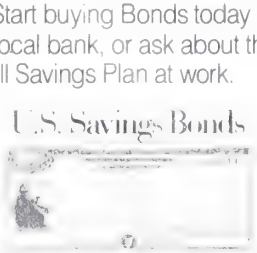

The Great American Investment

They will make it work," says Catherine M. Hapka, executive vice-president for markets and chief strategist at U S West Communications Group.

The most promising applications will be those that combine voice calling with other Internet-based services. At AT&T, executives talk about ways to help corporations build phone or even videophone connections into their public Web pages. That could enhance online shopping or game-playing, or give customers quick lines to a supplier's help desk. Companies such as Netscape, Quarterdeck, Connectix, and White Pine, meanwhile, are developing collaboration schemes that will let people converse while viewing and jointly editing a document on the Web. Internet phoning "will become quite competitive with traditional telephone service," says Michael Goldstein, president and CEO of Voxware Inc.

Voxware is one of more than a dozen makers of Internet calling software that have jumped into the market. The new industry is already getting crowded. That's why the stock price of VocalTec, the leading company in the field, has plunged to around 9—down from 19 at its initial offering in early February.

> The price gap that Internet calling enjoys will narrow —as regular phone rates come down

SIDESTEPPED. To make Internet calling easier for corporations, VocalTec has teamed up with Dialogic Corp. to build gateways that link Internet calls to and from local phone systems. Internet enthusiasts around the world are doing the same for consumers. More than 300 volunteers in 80 countries have formed the Free World Dial-Up Project and have programmed their PCs to complete Internet calls on the local phone line.

The Net's largest impact on telephone rates will be where they're highest—on international routes. Today, as many as 50% of transatlantic connections carry fax messages, which are digital and therefore perfectly suited for transmission over the Net. CallWare Technologies Inc. in Salt Lake City has come up with an Internet scheme to make international voice-mail a local call. A traveling executive in London could use a laptop computer to connect over the Net to a CallWare voice-mail system running on a PC back in the U.S. The PC would signal that system to send voice mail, in digitized form, back over the Net for playback on the laptop. The same setup could be used for leaving messages for others. No long-dis phone call would be required.

CallWare is also working on a based "callback" scheme: Via the that same executive could commar U. S. computer to dial another number over the phone network a as call him back in London. The co er would then link those two calls he would have a call from Lond the U. S. that avoided Britain's rel ly high tariffs on outbound calls.

MONKEY WRENCH. Before more th enterprising few start calling acro Internet, though, the technolog have to improve. Now, the call clearest when just one person s at a time. That's because the Net's ways are unpredictable and, depe on traffic conditions, the data "pa into which a digitized voice has broken may arrive out of order, layed. Intel, Mic and 100 other c nies have lined hind new stan that will reduc problem by packets with vo video data highe ority on the Ne

Another m wrench has bee response from carriers. Alarm the prospect of net calling, America's Carriers Tel munication Assn. (ACTA), a trade representing 130 small long-dis companies, has petitioned the F Communications Commission to late Internet telephony. Elon president and CEO of VocalTec, ACTA's move "upsets me." To fight Net-phoning hobbyists and soft companies have formed the Voi the-Net (VON) coalition.

Ultimately, industry executive the pricing gap that makes Int calling so attractive may narrow. unfettered competition in phone s will force rates down for ordinar vice. And as more telephoning an eo soak up gobs of Internet ca carriers are likely to charge mo Internet services. Already, Intern cess providers such as BBN, MC Uunet have instituted usage-sen pricing for certain high-capacity c tions. Instead of paying BBN a fla a month for so-called T1 service, h usage customers can end up pay much as $3,000. Even on the Inter giveaway can't last forever.

By John W. Verity in New York bureau reports

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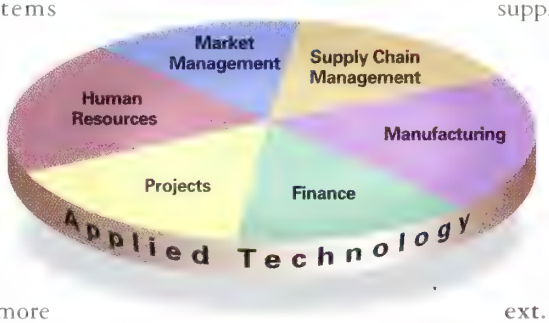

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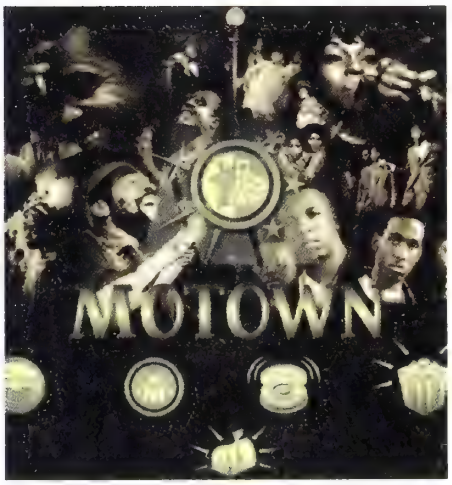

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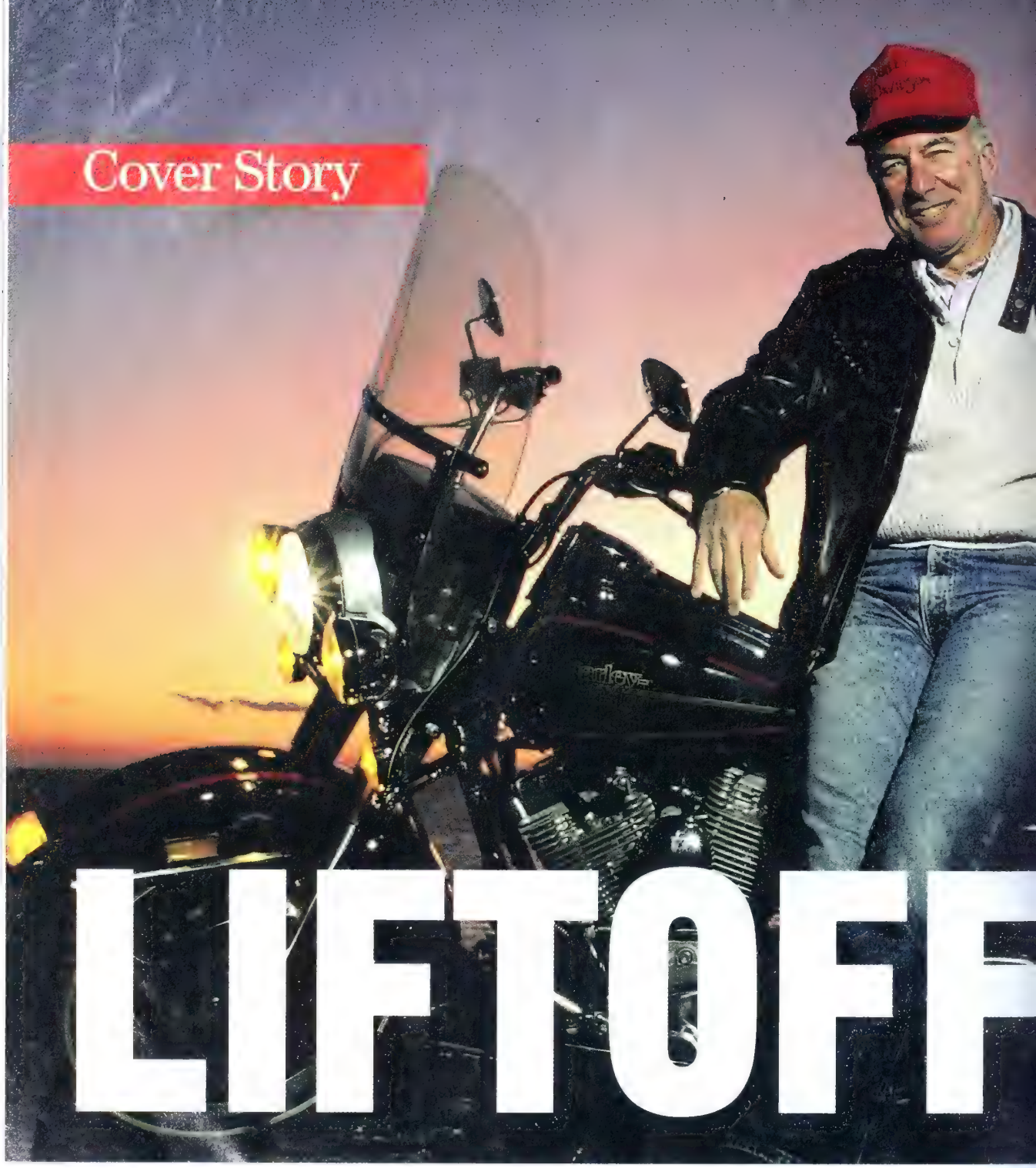


LIFTOFF

It was the morning after AT&T's Jan. 22 announcement of its $137 million investment in Hughes Electronics Corp.'s popular DirecTV satellite broadcasting service, and C. Michael Armstrong's Gulfstream sat warming up on a runway at Los Angeles International Airport. From his Olds Aurora, the Hughes chairman sprinted up the gangway and settled into his seat in the jet's wood-paneled cabin.

Within minutes, the Gulfstream thundered down the runway, then rose and banked east. Headed to New York and Boston for investor meetings and a weekend of rest at his condo in Naples, Fla., Armstrong popped open a Diet Coke and bore down on a thick roast beef sandwich. But soon the calls started pouring in. Viacom Inc.'s Sumner M. Redstone had already phoned to congratulate Armstrong on the deal. Next, Venezuelan broadcast czar Gustavo Cisn Hughes's partner in its Latin American DirecTV venture layed an equally upbeat message from Walt Disney Mike Ovitz. By midflight, Armstrong—his blue eyes twin as he flashed a toothy grin—floated the notion that his bi global rival was now Rupert Murdoch.

Hardly the typical morning of a defense-industry ex tive. But in the four years since the 56-year-old Armst left a top job at IBM to take over the struggling defense-tronics manufacturer, he has remade the $15 billion Hu into one of the hottest consumer-electronics and comm cations companies around.

SWEET VINDICATION: *Armstrong lost the race for IBM's top spot, but his success at Hughes has made him a GM star*

chael Armstrong s made Hughes an ectronics and ecom contender

eed, the Hughes that Armstrong oversees today could be further from the one he took over in early 1992. ed by eccentric billionaire Howard Hughes in 1932 to is interest in aircraft research, the company spent so money developing state-of-the-art technology that even entagon balked at its high prices. Although Armstrong's cessor, Malcolm Currie, had already cut 9,000 jobs and ouring money into new commercial technologies, Hughes, Armstrong, was sliding toward financial ruin. In the sev- rs since General Motors Corp.'s $5.2 billion 1985 purchase ghes, its sales had stagnated at around $11.5 billion. ngs, meanwhile, had dropped 30% from their 1988 peak, 9 million. With 65% of revenues coming from defense, morale was sagging, and Hughes's future was unclear.

Now, Armstrong has moved Hughes squarely into the forefront of some hugely promising—and hugely competitive—new markets. Its DirecTV satellite broadcasting system has proved one of the most successful consumer-electronics product introductions ever. Hughes's fast-growing Network Systems unit, too, is booming. It is building digital wireless and cellular-phone systems from Atlanta to Vladivostok and is now launching DirecPC, a satellite-based Internet hookup. And by 1999, Hughes's Spaceway satellite system will link phones, computers, and TVs in a seamless global network that could make cheap, easy videoconferencing a reality. Even at once mundane Delco Electronics Corp., an infusion of Hughes technology has given GM's automotive-electronics unit a jump start in developing gee-whiz features for cars.

From the beginning, Armstrong's strategy has been disarmingly simple: First, exploit Hughes's commanding expertise in satellite technology to tap into the commercial telecommunications boom. Once a product is launched, market like crazy, both in the U.S. and overseas. To finance these ventures, Armstrong has squeezed costs out of traditional military businesses.

Less visible but just as important, Armstrong has overhauled every single aspect of Hughes's operations—from the way workers get paid to the speed with which satellites are built. Striving to forge a more entrepreneurial culture, Armstrong has pounded home some simple—but for Hughes, radical—precepts. Customers count for everything. Time is of the essence. Markets are unforgiving. "Mike has brought with him this incredible ability to focus on the customer," says Hughes Vice-Chairman Michael T. Smith, brother of GM CEO John F. Smith Jr. "Without that, we would have probably been lost."

How Armstrong Fired Up Hughes

REVAMPED CORPORATE CULTURE
Slashed jobs by 25%, to 47,000. Put focus on customers and set goal of being No. 1 or 2 in each market. Introduced new compensation system pegged to financial performance.

REJUVENATED MILITARY PROFITS
Consolidated defense businesses. Divested 12 noncore units and strengthened key missile segment with an acquisition.

REFOCUSED COMMERCIAL BUSINESS
Focused commercial units on satellites, telecommunications, and auto electronics. Launched DirecTV satellite service, attracting 1.5 million subscribers in first 18 months. Other new services include DirecPC, a satellite hookup to the Internet, and a global two-way digital and data satellite system to be launched in 1999.

RESHAPED RESEARCH LABS
Cut staff from 550 to 400. Forced scientists to work with engineers and marketers. The result: technology linked to commercial opportunities.

SEEDS OF RECOVERY. And in an era when chief executives face growing criticism for overpaying themselves and pandering to shareholders by huge downsizings with little regard for job losses or future growth, Armstrong's success stands in contrast. True, for years he mercilessly slashed jobs. And he is paid amply: In 1995 alone, he earned $3.3 million in salary, bonus, and exercised options, making him GM's second-highest-paid exec, behind Smith.

But from the start, Armstrong also planted the seeds of Hughes's recovery. Even as he cut, Armstrong worked hard to rebuild morale. And over the past four years, he has invested

roughly $2.5 billion in promising new markets. The result: Hughes is again hiring thousands of engineers. "He has brought vision, cut costs, and executed a growth strategy," says Warren Bennis, head of the Leadership Council at the University of Southern California business school. "He has done a terrific job."

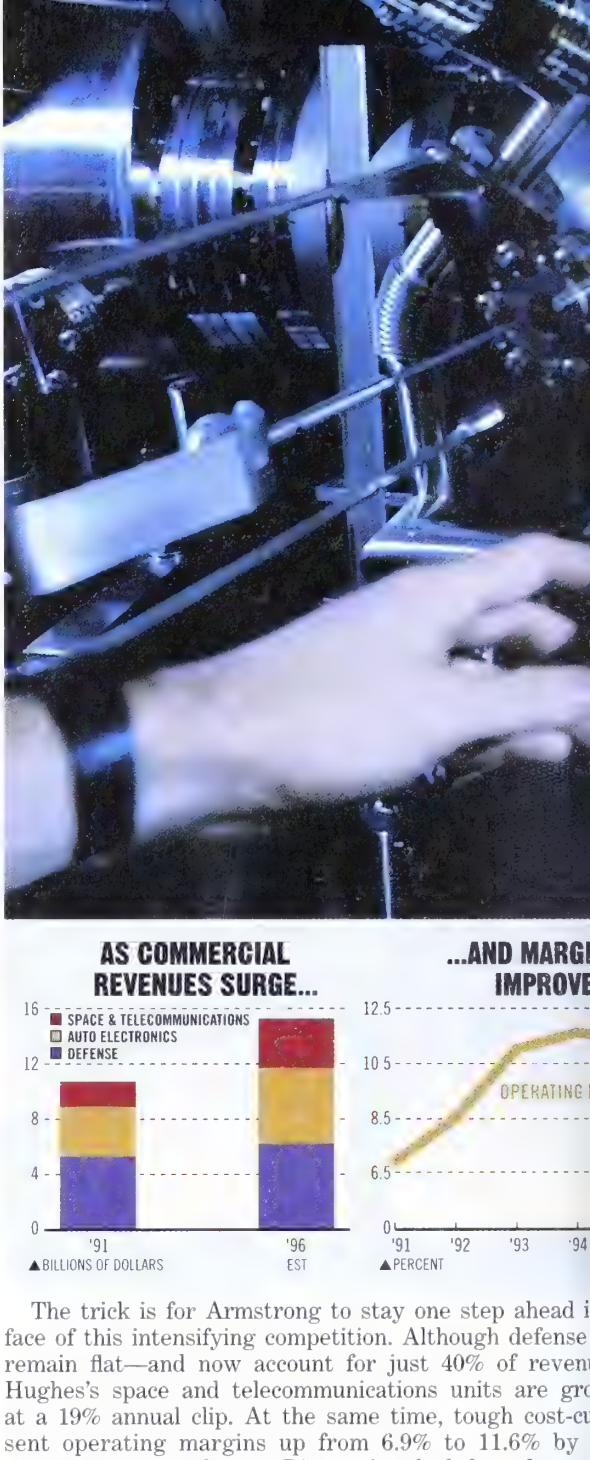
Cover Story

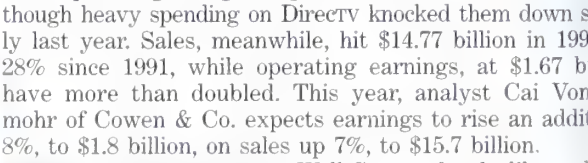
With the shift, Armstrong has also moved Hughes into the same universe as some of the world's most successful telecommunications and broadcast companies. Although Hughes beat Motorola Inc. for a huge cellular-phone contract from BellSouth Corp. and has outgunned Murdoch's News Corp. in the Latin American satellite-TV market, he can't afford to gloat. "So many people have jumped into space-based communications," warns Norman R. Augustine, chief executive of Lockheed Martin, Hughes's biggest rival in satellite building. "It's a lot like the airline industry 20 years ago. Traffic keeps moving up, but it's getting awfully crowded."

Indeed, Armstrong faces a frontal assault in virtually every new market. With a new state-of-the-art satellite-manufacturing facility soon to open in California, Lockheed Martin is threatening gains in Hughes's core satellite-manufacturing business. DirecTV's success at persuading 1.5 million homeowners to pay an average of $37 a month for 175 channels of programming beamed down by satellite has spurred a small army of competitors. And despite Hughes's early gains in wireless-phone-equipment markets, its edge is quickly being eroded by giants such as Motorola and L.M. Ericsson. "Hughes was way out in front of anybody else," says Evan Richards, vice-president of Ameritech Cellular Services, a Hughes customer. "But other manufacturers have caught up."

"Mike is not tolerant of not doing what you say you're going to do"

— JACK SHAW, Hughes Network Systems

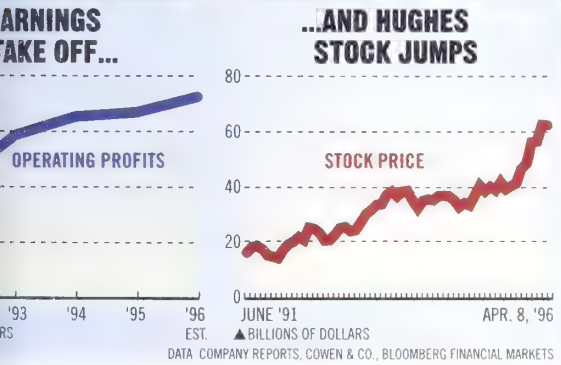




The trick is for Armstrong to stay one step ahead i face of this intensifying competition. Although defense remain flat—and now account for just 40% of reven Hughes's space and telecommunications units are gr at a 19% annual clip. At the same time, tough cost-cu sent operating margins up from 6.9% to 11.6% by though heavy spending on DirecTV knocked them down s ly last year. Sales, meanwhile, hit $14.77 billion in 199 28% since 1991, while operating earnings, at $1.67 b have more than doubled. This year, analyst Cai Von mohr of Cowen & Co. expects earnings to rise an addi 8%, to $1.8 billion, on sales up 7%, to $15.7 billion.

JOINING THE INNER CIRCLE. Wall Street clearly likes wl sees. Since Armstrong's arrival, GMH shares—the Ge Motors stock linked to Hughes—have soared from 63. "Armstrong is able to manage mature businesses e ly well as growth businesses. That's rare in a CEO," David L. King, a portfolio manager for Putnam Invest Management, which has 4% of Hughes's publicly held sh "If they hadn't developed DirecTV, we would not be ac to our position today." Indeed, after investing $750 milli DirecTV, a payoff is nigh: The service should hit the

ALTERED VISION: *Scientists at Hughes Research Lab in Malibu now work hand in latex glove with the business side*



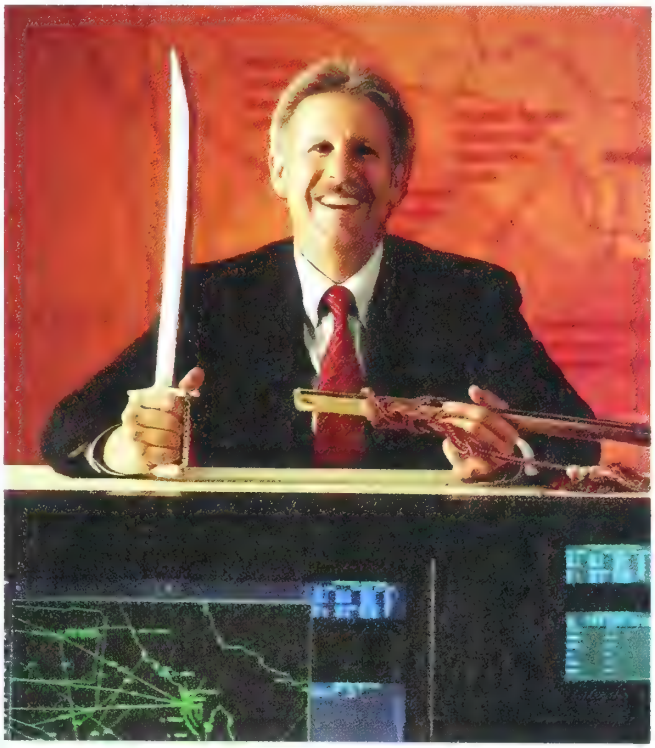
ext year. By 1998, Rumohr expects it to add $400 mil- operating profits on nearly $2 billion in revenues.

strong's bosses at GM are also happy. Impressed with ly gains at Hughes Aircraft Co., they moved the poor- orming Delco under his wing in 1993. Stiff cost cuts ince nearly doubled its operating margins, too, to In June, 1995, Armstrong was elected to GM chief s seven-member President's Council. He enjoys grow- uence with Smith and his inner circle. "It's powerful Mike with us," says GM Executive Vice-President and l Counsel Harry J. Pearce, the GM board member ersees Hughes. "He challenges just about everything." recent spin-off of Electronic Data Systems Corp. has rumors that a similar deal for Hughes might be in the Such a change would require a financial restructuring. gh 25% of GMH shares are held by the public, Hughes s a wholly owned subsidiary of GM; the shares simply lders a stake in Hughes's earnings. Armstrong refused ment on the spin-off rumors, saying only that the two nies have discussed Hughes's equity structure in the nd "continue to look at all alternatives."

cess at Hughes is sweet vindication for the hard-charging Armstrong. The Detroit native joined IBM straight out of Miami University in Oxford, Ohio, and rose rapidly. An outgoing man known for a dogged competitiveness, Armstrong proved a forceful, natural-born salesman. Taking over IBM's troubled European unit in the mid-1980s, he became its chief pitchman. At one point he spent 45 days on the road, personally patching up relations with customers. Armstrong also slashed IBM's red tape and pushed hard into new markets in Eastern Europe. By the late 1980s, he had turned the unit around, earning Big Blue's top international job and a spot on the short list to succeed John F. Akers (page 147).

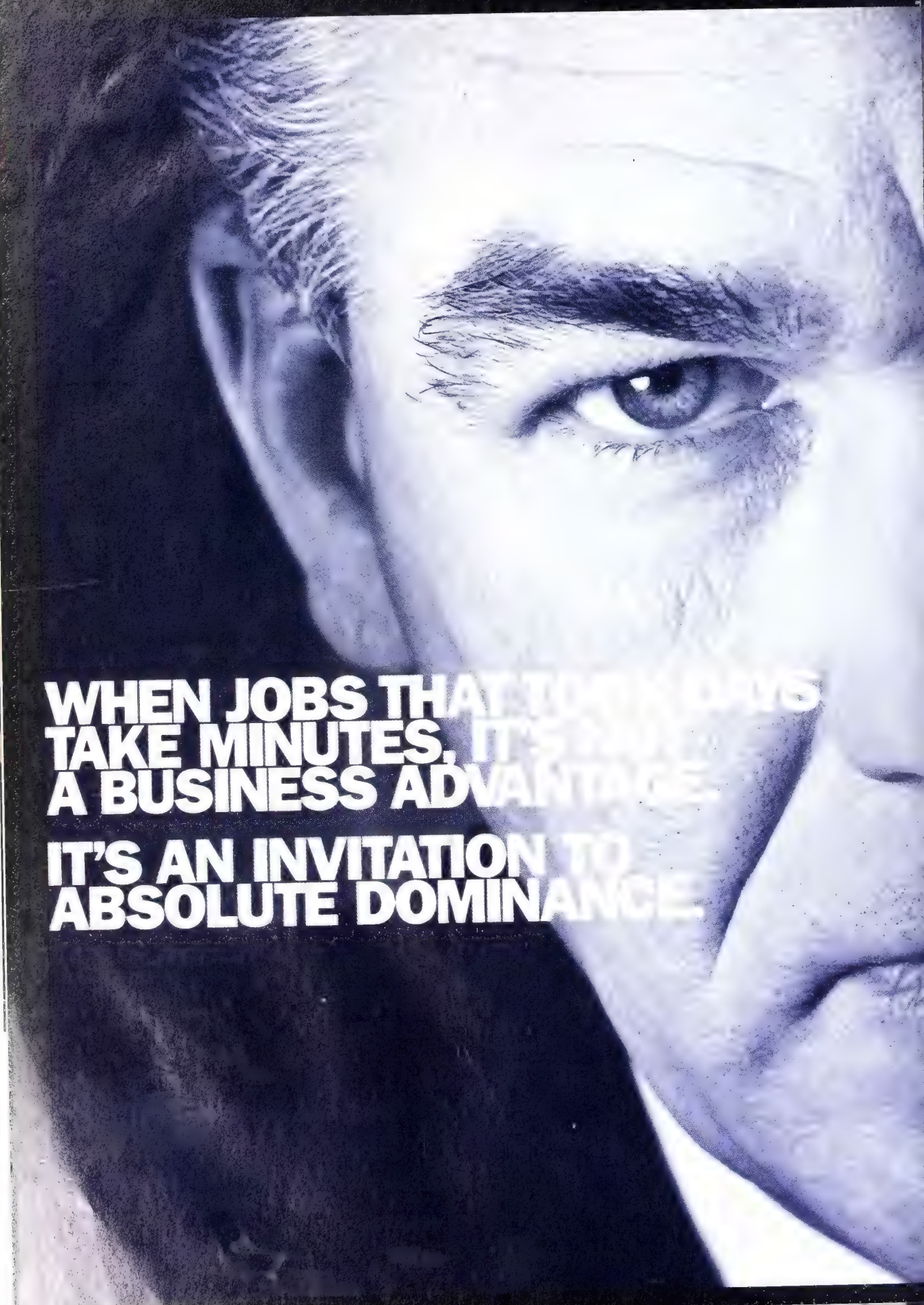
But in late 1991, Akers told Armstrong that he would not support him for IBM's top job. "He didn't tell me why, and I didn't ask," says Armstrong. When Hughes called that December, he was ready to move. Although CEO Currie leaned toward a homegrown engineer as a successor, GM wanted an outsider to bring the marketing expertise it lacked.

THE NEW MANTRA. At Hughes, Armstrong found a formidable challenge. While other defense makers had repositioned themselves as defense budgets shrank, Hughes had drifted. A push to convert military technologies to commercial products was failing. And despite some streamlining, it was mostly business as usual. Senior executives enjoyed company-paid country clubs and a fleet of 16 corporate jets. High-salaried scientists at its research labs in Malibu, Calif., pursued esoteric projects with little commercial value. Although Currie had long talked about more dramatic moves, he was too steeped in Hughes's old ways. "It takes a lot of time to change a corporate culture," says Currie. "There



"There was an audible hush as Armstrong offered big bonuses to finish Peace Shield on time"

— JEFF VERMEER, Hughes Aircraft engineer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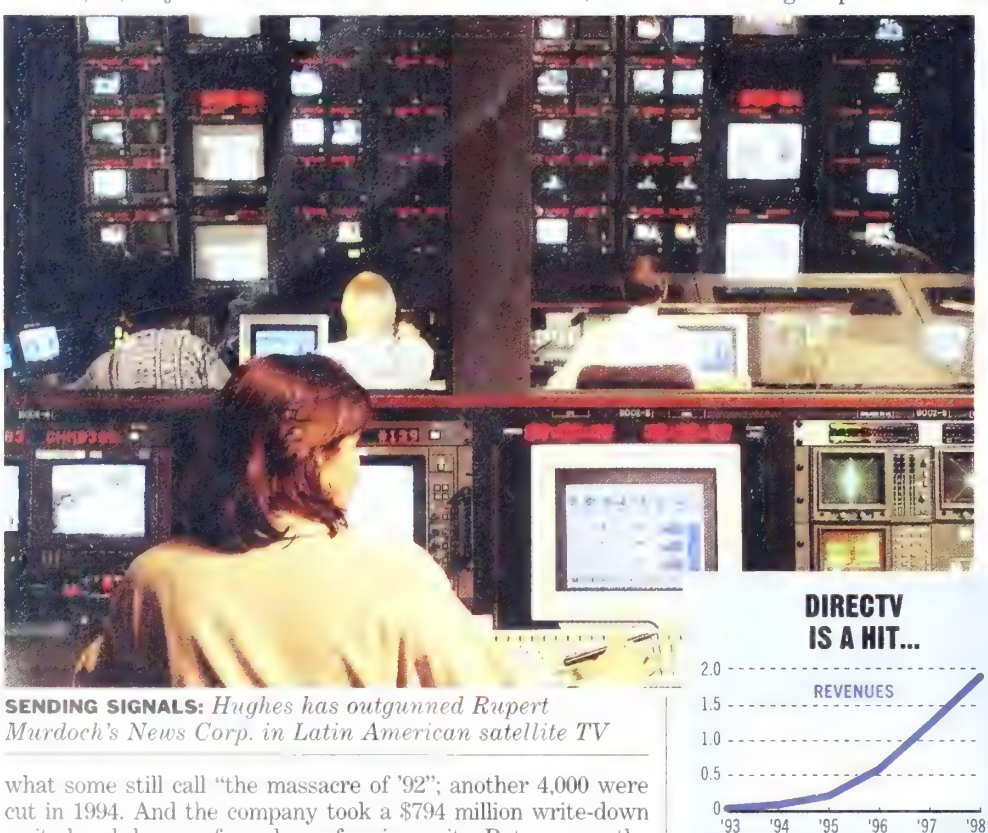
"Mike said we had to focus on hitting home runs. If w
couldn't be No. 1 or 2 in a market, we shouldn't be in i

were some things we just didn't get around to doing."

Although impressed with Hughes technology, Armstrong was appalled by the company's business practices. "Costs, cycle time, customer focus. Those were just not things that were part of the landscape," he says. Within 90 days, Armstrong ordered 30% cost cuts across the board. Before he took off on a global tour to meet Hughes customers, he gathered his managers to begin hammering home a message that would become his mantra. "Mike said we had to focus on hitting home runs," says Charles F. Noski, Hughes's chief financial officer. "If we couldn't be No. 1 or 2 in a market, we shouldn't be in it."

In all, 12,000 jobs were slashed from a workforce of 63,000 in what some still call "the massacre of '92"; another 4,000 were cut in 1994. And the company took a $794 million write-down as it closed dozens of poorly performing units. But even as the pink slips piled up, Armstrong began rebuilding. For most of those let go, he ordered unusually generous severance: $5,000 for training or tuition, six months of health-care benefits, and up to 40 weeks of severance. That eased the pain for outgoing workers—and improved morale, winning Armstrong crucial support from those remaining. "It was something that had to be done, but he did it well and fairly," says Jacques Naviaux, a manager in the Hughes radar-systems unit. "I respected him for it."



SENDING SIGNALS: *Hughes has outgunned Rupert Murdoch's News Corp. in Latin American satellite TV*

Cover Story

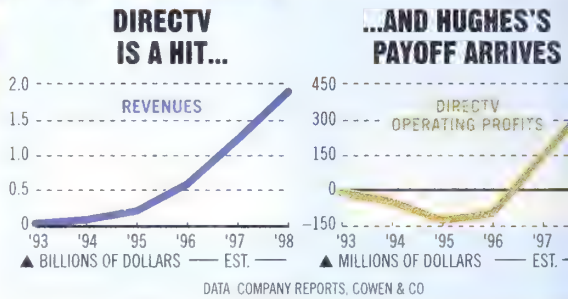
Armstrong also moved quickly to overhaul Hughes's culture, which featured a top-heavy hierarchy that mirrored its military clients. Managers had little accountability. And the engineers' culture rewarded those who came up with the most sophisticated inventions—whether or not the market wanted them.

So Armstrong kicked off a sweeping reform of the compensation system. All workers would earn a bonus tied to the profits their units earned. He also insisted that engineers attend finance classes. And he threw open the com books. "Finances were always a big secret," says Ste Dorfman, president of Hughes's satellite unit. "Now, ev was walking the floors talking about return on net as

Armstrong also put his pitchman's skills to work, crossing Hughes to spread his message. "No matte good your technology is," he told his engineers tim again, "you cannot survive unless you grow." And whil CEOs were rarely seen, Armstrong began holding no-barred meetings twice a month that anyone could a When he visited plants, he made sure to talk to workers out managers present. Insiders say he often canceled ings with senior execs t talking with shop-floor w

A persistent, thorough ager, Armstrong is a n preparation. The plaque desk reads, "Assume no Armstrong always do homework, his manager "You go into a meeting, knows all your numbers, Gareth C. C. Chang, senio president of internationa ness development. "He has such a commitment to yo you feel you owe him the

Still, insiders say he's micromanager. "Mike get done with a light hand reins," says Arthur N. C Hughes research head doesn't tell you what to



tells you the results he wants." Yet woe to those wh their targets—Armstrong also has a sharp temper. "M not tolerant of not doing what you say you're going t says Jack A. Shaw, chief executive of Hughes Ne Systems.

Nowhere have the changes been more visible t Hughes's traditional defense lines. Take the $1 billio tract for the Peace Shield, a sophisticated new air-d system for Saudi Arabia. By 1992, the project had fa year behind. But Hughes was to receive a $50 million if it finished construction by the end of 1995. To give t engineers incentive to make up the lost ground, Hughe craft President John C. Weaver proposed offering 10% of the bonus to split among themselves. He stunned when Armstrong offered 40% instead. Whe group assembled to get the news, half listening in Saudi Arabia, "there was an audible hush," says Jeff

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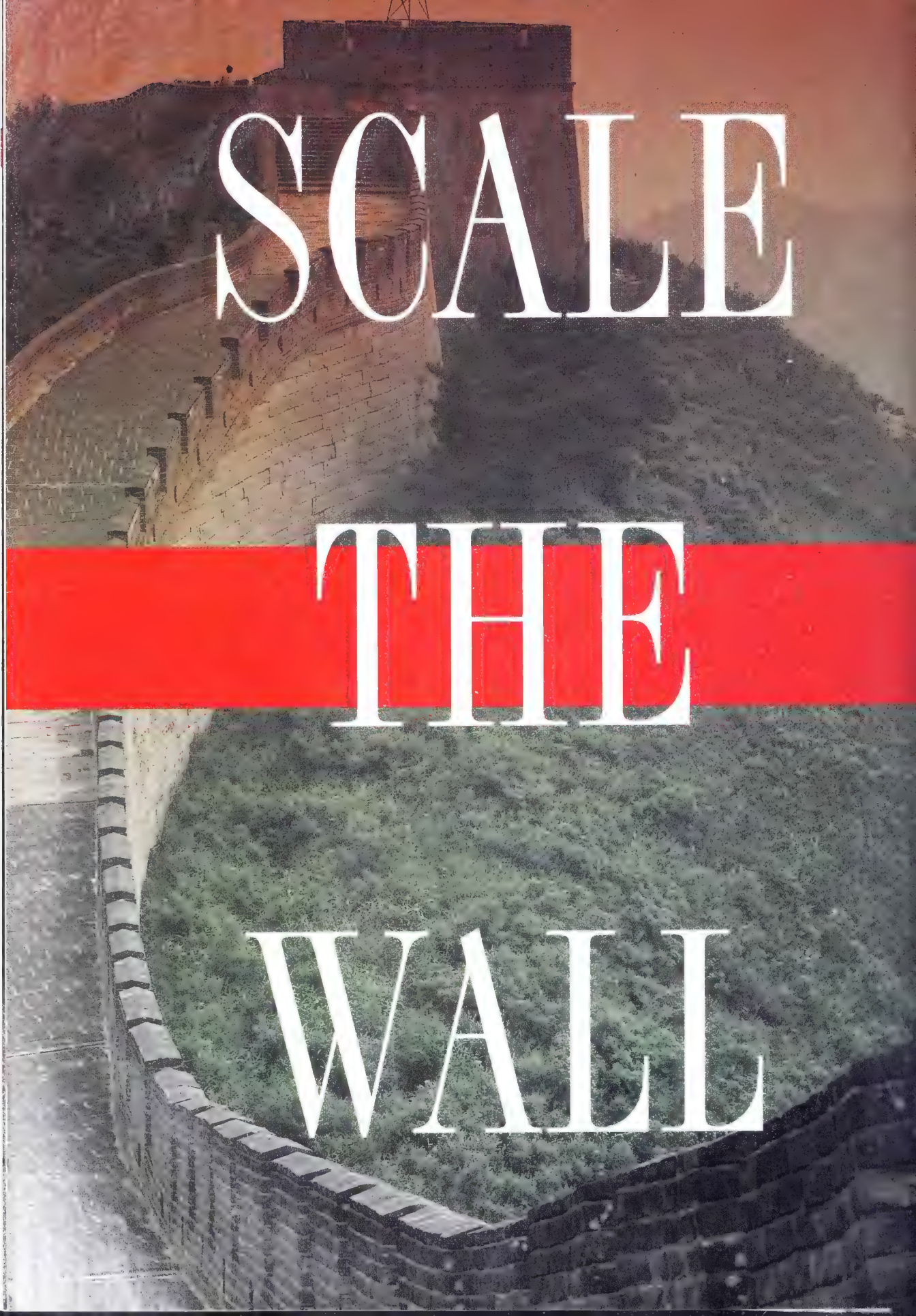
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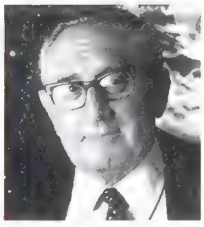

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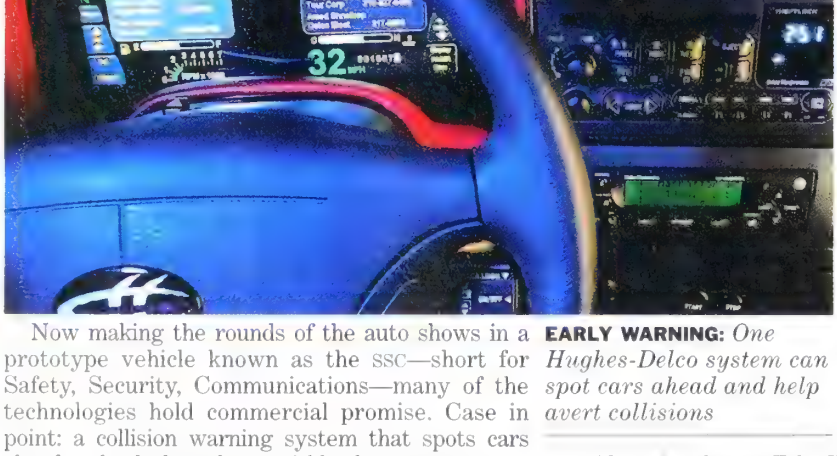
DirecTV was in the works when Armstrong arrived, but he gave the $750 million project high priority

Vermeer, a software engineer. They piled on overtime, and each earned a check averaging $22,000.

Armstrong has also brought enormous change to the once cushy Hughes Research Laboratories in Malibu. Even before he officially took the helm at Hughes, he drove up the twisting Pacific Coast Highway to brainstorm with lab chief Chester and his staff. He told the scientists it was time they started earning their keep. To improve accountability, Armstrong proposed that 50% of lab funding would come from commercial units, rather than headquarters. And imitating other well-run research labs, some 200 scientists were assigned to spend about a third of their time working for the business units.

Cover Story

The moves profoundly altered Hughes's scientists. "In the past, it was detrimental to your career to get involved with the business units," explains Hughes scientist Adrian E. Popa. "Now, for the first time, we sat in on top-level meetings and began tossing around marketing concepts." The payoff is already coming. In a wing of the lab once devoted to Star Wars research, a mix of Delco and Hughes scientists have developed an extensive array of automotive electronics.



EARLY WARNING: *One Hughes-Delco system can spot cars ahead and help avert collisions*

Now making the rounds of the auto shows in a prototype vehicle known as the SSC—short for Safety, Security, Communications—many of the technologies hold commercial promise. Case in point: a collision warning system that spots cars ahead and calculates how quickly the car must stop to avoid an accident. Manufacturing engineers are trying to squeeze costs from the system so that it can be mass-produced.

Then there's a Night Vision System, which Hughes adapted from one developed for GIs in the Persian Gulf War. It features an infrared camera that can "see" three times farther ahead than a driver with standard headlights. The image of, say, a nighttime jogger, can be projected onto the windshield, another technology borrowed from jet fighters. But this one also gives drivers navigational information, collision warnings, and other information.

Will this technology ever find its way into ordinary cars? Some of it already has. This fall, buyers of 1997 Cadillacs will be offered an optional $1,000 service, called OnStar, developed by Delco. OnStar will link into Cadillac customer service, which will know where a car is. It can give directions, u the door when a driver locks the keys inside, and aut cally call for help when the air bags deploy. Toyota Corp. hopes to add Delco's radar collision warning syst its cars within five years.

DISPROVING THE SKEPTICS. But it is the high-profile sa business that Armstrong has really trained his sights o though Hughes had been an early satellite pioneer, by th ly 1990s, it was custom-building just three birds a yea worldwide market share had fallen to just 40%. To production, Hughes ended customization and centr manufacturing from 43 locations into one factory floor ployees were invited to fill out weekly "yellow sheets" ideas for improving production techniques. With ideas ing in, production has soared to 15 satellites a year Hughes today holds 60% of the $5 billion market for mercial satellites.

That turnaround was key to Armstrong's strategy of ing rapidly into related satellite services. Most dramat been the highly successful launch of DirecTV. Althou was in the works before Armstrong arrived, he gav project high priority and calmed GM's board when it w that its $750 million investment wouldn't pay off.

Disproving skeptics, the service has b smash hit—and President Eddy W. Ha stein projects it will have 10 million vi by 2000. That heady lead persuaded AT give up plans to launch its own comp service in late 1995. "We wanted to this industry fast, and we wanted to big," says Joseph P. Nacchio, who AT&T's consumer unit. "That meant Dire

The U.S. moves are just the first st Armstrong's plans. In May, Hughes wi out DirecTV in Latin America. Next Japan in 1997, followed by a launch in E or China. Says Armstrong: "The potenti international business far outstrips any we can do just in the U.S." Back in Am rival satellite-TV services such as Prim and Echostar Communications Corp., is launching services on May 1, are targ Hughes's turf. A far bigger threat comes Murdoch's News Corp., which is also laun a Latin American satellite service by And Murdoch, who has teamed up wit Communications Corp. in a $2 billion venture, may also soon link with cable erhouse Tele-Communications Inc. Such a combination give Murdoch worldwide reach and extensive program "Murdoch would all of a sudden have global programm says Rick Westerman, an analyst with UBS Securities. could really crimp DirecTV's strategy."

Indeed, Westerman warns that Hughes could face margin pressure as competition sends hardware price subscription fees tumbling. That will make it harder for strong to secure the earnings boost from DirecTV he's cou on. He has to keep up a heavy spending program—thoug other high-tech bets are far from sure. Hughes's DirecPC lite Internet link will face stiff competition from high-spe ble modems, while its Spaceway satellite videoconfere system still must clear regulatory hurdles. But Armstro not worried about rivals. "I think the combination of GM,

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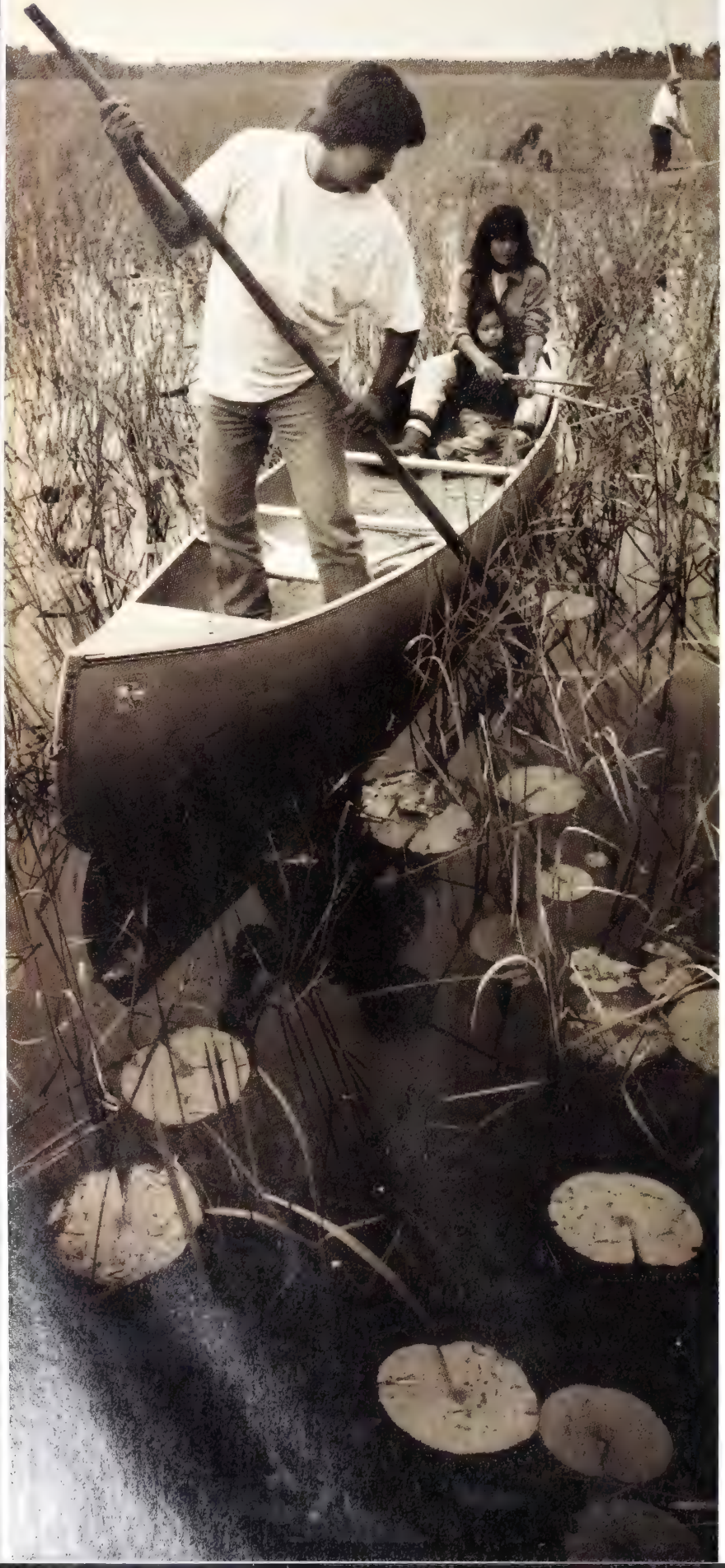

According to legend, a little child had a dream about the best way to harvest and prepare wild rice. Tha should be knocked from the stalks with blessed sticks, then parched i the sun and danced on to remove t husks. The people did this and the made it through the winter with enough to eat. "Manomin" was the word the child dreamed, and that came the word for rice. "Menomin is the name of the tribe, and it mea "Keepers of the Rice." These words and traditions came from the drea of a child. Which is just one reason Menominee have always made it a p to talk to their children. And to liste

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ghes is at least equal to that," he says. "There's plenty for growth in these markets."

trong also has to keep up the pressure at $1 billion Network Systems, which supplies wireless phone nt and infrastructure. He has helped HNS push a line of tellite ground stations—known as VSATs—to provide e service to remote areas of the developing world. e growing at 20% annually. Armstrong has also helped d deals to provide fixed wireless phone service to s such as the Czech Republic and Vietnam, a business s grown from nothing to $200 million since 1994. ing those and other international markets is what ong—who spends more than half of his time on the road—is pushing hardest these days. Last October, he and international head Chang flew to Beijing. In a quiet meeting with Chinese President Jiang Zemin, the two laid the framework for bringing DirecTV to China. Armstrong also used his entrée to help win a $640 million bid to supply China with satellites and handsets, beating out Loral Corp. and Lockheed Martin. "He stepped up what would have been a two-year dialogue at lower levels," says Chang. "He clearly showed the Chinese what was in it for them." With results like that, Armstrong is likely to be spending a lot more time in his Gulfstream munching down cold roast beef sandwiches.

By Eric Schine, with Larry Armstrong, in Los Angeles, Kathleen Kerwin in Detroit, and bureau reports

A GUY WHO FOCUSES ON THE DOABLE

TOP GUN: *Armstrong (left) about to ride an F-18 jet fighter, for which Hughes makes the radar*

ike Armstrong has always been a pragmatist. When he won football scholarships to both the ersity of Michigan and Miami ersity in Oxford, Ohio, he picked ess well-known Miami. "I took ook at those guys on the Michieam," recalls Armstrong. "They all so enormous, I figured I'd r have a chance." The choice off: Armstrong was a star Miaalfback for two years, until he sidelined by injuries.

e choice was also typical Armg. From the time he was a boy ing up in a middle-class neighood in Detroit, Armstrong has known as an intense competitor a knack for focusing on the do- Fraternity brother Tom Angus embers that Armstrong did well hool—"not because he was a cularly brilliant student," Angus but because he threw himself ently into whatever he took up. trait that's propelled Armg throughout his long career. arly on, Armstrong also dised the easy charisma that would make him such a strong sales- He was captain of his high school football team and senior class president. At age 14, Armstrong started dating Anne Gossett; seven years later, they married. "Mike was always the leader of our group," says high school friend Patricia Trosin. "He even got us to try pizza for the first time."

THE HARD TIMES. But close friends and family say there were hard times, too. In 1956, his father lost his job as an electrical engineer. For years, the family struggled as his father built his own business. Armstrong credits his mother, Zora, with providing the backbone the family needed—and the inspiration that has driven him so far. "She gave us unyielding self-confidence that we could be whatever we set out to be—no limits," he says.

After receiving an undergraduate degree in business, Armstrong got a half-dozen job offers. He quickly narrowed his choice to IBM and Procter & Gamble Co. "I already knew who I was going to marry," says Armstrong. "So all I had to figure out was who I was going to work for."

Armstrong chose Big Blue, and as IBM boomed in the 1960s, he rose swiftly, learning every aspect of the mainframe business—from systems engineering and marketing to finance. But he made his biggest mark in the late 1980s, when he jump-started IBM's troubled European arm. Fellow execs remember both his jovial charm—and overriding competitiveness. "If you describe anything to Mike as a contest, he wants to win," says James Cannavino, president of Perot Systems, who worked with Armstrong for two decades at IBM.

Today, Armstrong and his wife have three adult daughters, and they split their time between a home in Darien, Conn., and another in Manhattan Beach, Calif. Armstrong still has plenty of the old athlete in him. To relax, he likes to zip around on his two vintage Harley-Davidson motorcycles. And on weekends, Armstrong unwinds by playing tennis—though his games are hardly casual matches. Fred Scholtz, a retired banker from Morgan Stanley & Co. with whom Armstrong often plays, describes him as a ferocious rival. Even if it takes all day, "Mike won't quit until he wins a set," says Scholtz. "Mike doesn't take chances. He just gets the ball back every time and wears you down. He lets the other guy beat himself." That's called playing the smart point in tennis. It's also pretty much the way Armstrong has lived his life.

By Eric Schine in Los Angeles

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THE NEXT GREAT LEAP FOR SHUTTERBUGS?

"Take pictures. Further." That's the theme of the largest advertising campaign in Eastman Kodak's history, as the company trumpets the imminent arrival of the Advanced Photo System, a feature-rich new film format backed by the heavyweights in the photo industry. Kodak joined archrival Fuji Photo Film, plus Canon, Minolta, and Nikon in developing the APS standard. On Apr. 22, consumers can get their paws on the first cameras to embrace the system.

Should they race out to do so? The answer depends on how dedicated they are to the craft of photography. Those who take occasional snapshots at a family gathering or on vacation can clearly get by as they always have with one of the many compact 35mm cameras flooding the market—from cheap disposable and "idiot proof" models to more advanced kinds with built-in zoom lenses.

At the other end of the spectrum are serious hobbyists and professionals. They have doubtless invested a great deal of money outfitting themselves with one or more single-lens-reflex (SLR) cameras, plus lenses and accessories. Absent astonishingly better pictures—which won't be the case with APS—and given that the new film isn't compatible with their current camera equipment, they may not have a compelling reason to plunge in, either.

EASY LOADING. Yet for many shutterbugs who crave good pictures without the steep learning curve of conventional SLR equipment, APS boasts features that can make picture-taking a breeze: simple loading, easy flexibility on print sizes, and, in theory, improved photo quality.

But anyone who wants all these APS goodies must pay for the privilege—every step of the way. APS cameras will cost from $12 to $700, or about 15% to 30% more than roughly comparable 35mm models. A roll of film will also run 15% to 20% extra. And in most instances, you'll pay a premium to have the photographs developed.

At the APS launch, Kodak and Fuji will market color print film suited for three different light levels (100, 200, and 400 ISO), packaged in cassettes of 15, 25, and 40 exposures. Slides and black-and-white film will follow later. A 200 speed, 25-exposure APS roll carrying Fuji's Smart Film brand will list for $6.87, same as Kodak's Advantix brand, vs. $5.92 for a 24-exposure roll of 35mm Fuji film.

The first thing you'll notice is how simple it is to load the film: There's no tail sticking out of the specially designed film cartridg just drop it into an AP era. No more fussin threading a film leade spool, as you woul many 35mm camera practically impossib mess up: The oval-s cartridge, which is 30% smaller than a roll, only fits in on Many APS cameras wi wise be smaller tha 35mm counterparts.

SELECT YOUR SIZE. O cartridge has been photographers can switch to select amon frame formats for eac (You'll see the differe the viewfinder.) The classic, 4-in.-by-6-in. sh responds to conve 35mm photographs. setting yields a wide by-7-in. view; this is the way to shoot if yo to capture a group of in one picture. And th 4-in.-by-10-in. P forma is for panoramic shots Even after you have

▶ **CAMERAS** such as the Canon ELPH will generally be smaller than their 35mm counterparts.

▼ **THE FILM** is housed in an oval-shaped drop-in cartridge. On the side of the cartridge is a status indicator that tells you whether the film has been exposed and/or processed.

▼ **THE NEGATIVE** is wound inside the film cartridge. The date, time, and shooting info for each shot is recorded on a magnetic layer read by the photofinisher's equipment.

The Advanced Photo System

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shers must lay out $70,000 to $90,000 to install new equipment, or about half that to modify their 35mm processing equipment. Some are loath to do so. Beginning on May 1, consumers can call 800 242-2424, punch in their zip code, and have Kodak provide a list of APS photofinishing locations in the area. The owner of a minilab in Manhattan said he expects to send an APS roll off to Kodak for processing, but that won't satisfy the instant-gratification crowd used to getting their pix back in an hour.

Once film is processed, consumers get back prints of varying sizes, depending on whether the pictures were shot in the C, H, or P format. They will also retain the now-developed film cartridge—which can be inserted into auxiliary gadgets for showing the pictures on a TV screen—plus an index print, or contact sheet that displays sequential thumbnail images of every frame on the roll. The negatives are rewound in the cartridge. Each frame has a corresponding number, so it's a cinch to order reprints or enlargements. The index print also lets you see how each image was cropped, in case you want to try out a different size.

NO MIRACLES. With a few exceptions, my efforts at shooting rolls of APS film yielded pleasing results. But we're not talking miracles here—and the system can't save a bad photograph. Some of the pictures I shot in fluorescent light with a roll of 400 ISO from Fuji came out with a yellow tinge. On a roll of 200 ISO Kodak film, outdoor pictures appeared a tad washed out, though indoor flash pictures were generally impressive.

The launch of the new film will coincide with the debut of a host of new APS cameras, but not every model will take advantage of all the APS features. Some cameras will let you swap a roll of film midway through, which might be useful if you wanted to take 100 ISO pictures for some shots and 400 later on. Kodak is backing its Advantix film with nine Advantix cameras, including the $195 3700IX that I used.

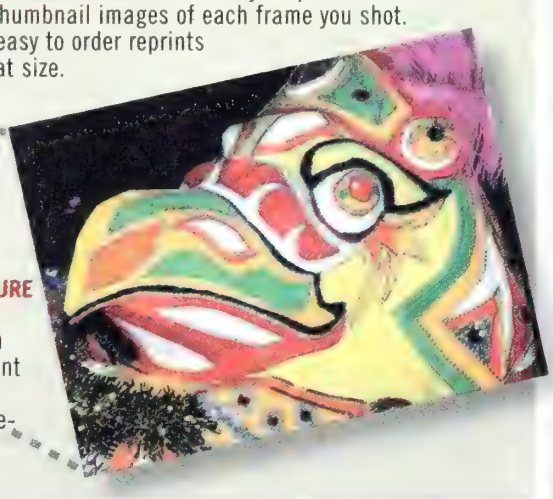
Fuji has unveiled two single-use APS cameras, costing $12 and $20, and five Endeavor models ranging from an $850 4x zoom (25mm to 100mm) SLR to a $70 fixed-focus entry-level model. The slim $350 Endeavor 250Zoom (25mm to 55mm) that I tested has presets that let you put a brief title (vacation, honeymoon, graduation) in one of a dozen languages on the back of the print, and select the number of copies you want of a shot before you snap the photo. That means you can take a group photo of your pals on a tour bus and arrange for a copy for each person. If you suspect that the photo was a dud, you can cancel the extra copies before you snap the next frame.

Canon is offering perhaps the coolest new picture-taker. It's the tiny autofocus, 2x zoom (24mm to 48mm) known as ELPH. The camera

PHOTOGRAPHY

APS cameras run 15% to 30% higher–and you'll pay a premium for film and processing

◀ **AN INDEX PRINT** is returned with your pictures displaying thumbnail images of each frame you shot. It makes it easy to order reprints in any format size.



▶ **THE PICTURE** can be processed in three different print sizes: classic, wide-view, and panorama.

is about the size of a deck of cards, with a retractable flash and a slick corrosion-resistant stainless-steel body worthy of Agent 007. Even the first pictures I took with ELPH were generally first-rate. One quibble: I found it a bit difficult changing the dial on the three print format sizes. The camera is expected to cost around $500.

Nikon is initially bringing out a half-dozen $155 to $380 compact automatic cameras under the Nuvis brand names. Nikon will eventually market APS SLR cameras that can handle existing Nikon 35mm lenses to satisfy those who have invested heavily in the old equipment. Minolta also plans to appease customers who own lenses when it unveils an adapter that will fit onto some of its APS cameras. Meanwhile, Minolta showed off its stable of APS models, including the top-of-the line, fully automatic Vectis S-1, which can handle five interchangeable lenses. Vectis costs $590 for the body only or $786 in a kit that includes a lens, film, and battery. Although not an underwater camera, the S-1 is splash-proof, meaning you can chance using it in the rain.

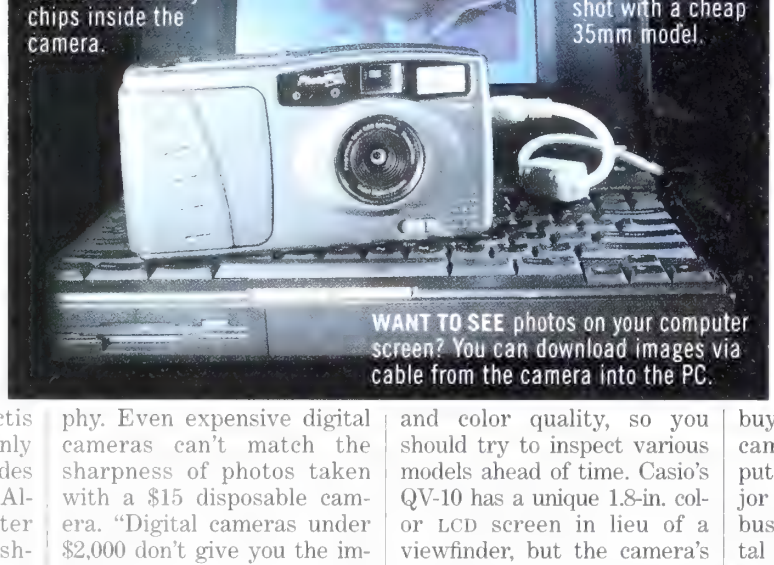
WEB SHOTS. While APS uses a bit of computer wizardry to improve on picture-taking, there's an even more electronics-laden format gaining momentum: digital photography. Filmless digital cameras store images on memory chips inside the units until they're downloaded onto a PC. And prices are dropping fast. Last fall, Epson introduced a color digital camera for less than $500. Several other digital point-and-shoot cameras from Apple, Casio, Chinon, Kodak, and others can be had for around $1,000. (Professional versions can [illegible] $10,000 on up.) What's [illegible], you don't pay for film or processing.

Those considering a digital camera should think about several factors before moving forward, not the least of which is picture quality. Digital varieties are no substitute for 35mm cameras, so if all you plan to do is take snapshots of Grandma or the kids, you're best sticking with conventional photography. Even expensive digital cameras can't match the sharpness of photos taken with a $15 disposable camera. "Digital cameras under $2,000 don't give you the image quality that consumers expect from a 4-by-6 print, let alone anything larger," says Michael McNamara, technology editor at *Popular Photography*.

But digital cameras are a superb way of getting photos into your PC in a hurry, and kept small, the images are acceptable for display on World Wide Web pages or for use by desktop publishers, insurance adjusters, and real estate brokers. Indeed, they're becoming a big hit with many businesses (BW—Apr. 15). What's more, the advent of inexpensive and vastly improved color inkjet printers lets you spit out decent enough paper copies.

Still, digital photography has a long way to go before it challenges the dominance of film. McNamara of *Popular Photography* recommends a camera with software drivers that make it easy to move and download pictures, such as Chinon's $1,100 ES-3000, Fuji's $1,200 Fujix DS-220, or Kodak's $980 DC50. There also can be substantial differences in sharpness, skin tones, and color quality, so you should try to inspect various models ahead of time. Casio's QV-10 has a unique 1.8-in. color LCD screen in lieu of a viewfinder, but the camera's overall sharpness and contrast were rated poorly by *Popular Photography*. And the camera does not have a built-in flash. Ricoh's higher-resolution RDC-1, which costs $1,800, is perhaps the most compact digital camera—it's about the size of a microcassette recorder. That's appropriate, since it can record sound. It comes with a built-in flash, and for $500, an optional plug-in, 2.5-in. LCD display screen.

Digital Pictures



IN LIEU OF FILM, digital images are stored on memory chips inside the camera.

PHOTOS OF THE grandchildren taken digitally won't match the quality of images shot with a cheap 35mm model.

WANT TO SEE photos on your computer screen? You can download images via cable from the camera into the PC.

Digital photos can var substantially in sharpne skin tones, and color

I shot a few imag Epson's PhotoPC. Th focus, point-and-sho era is on the large s not particularly attra ran into a port confli ing the camera up t computers, but once working, it was fairly to manipulate imag Storm Software's Ea program, which preview pictur transfer them t programs on yo puter. The cam take up to 32 s resolution image higher-quality p using the memo that come with you have reache ity, you must d the pictures onto before you can ta ers. To add cap up to 160 imag can snap on a 4 byte memory mo $249 or a 2-me one for $149. Pl software cu works on IBM-co computers. A Ma version is in the

Indeed, whet buy a digital, 35mm, camera, the person puter is fast becomin jor repository for fan business photos. Whi tal cameras send pict rectly to a PC, consum get film processed floppy disk or Photo with such produ Storm's EasyPhoto s now built into the dri of some new H Packard home com you can easily trans tures onto the PC' drive. Whichever you choose—nowada snap to take picture further. *Edwa*

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SELF-STORAGE: A NICHE WITH ROOM TO GROW

SMART MONEY

Those ubiquitous self-storage buildings that dot the borders of large cities may look like ugly ducklings, but as high-yielding equity REITs they've turned into beautiful swans. "The self-storage industry is in a renaissance," says Clint McDonnough, director of real estate investment trusts (REITs) for E&Y Kenneth Leventhal in Dallas.

The cubbyholes and garages, used to shelter stuff that folks haven't room for at home, are enjoying occupancy rates of 90%. That, coupled with plentiful acquisition and growth opportunities, has made this REIT niche one of the fastest-growing and best-performing in the sector.

PLAYING DEFENSE. Self-storage REITs returned a total of 34.89% in 1995, vs. 15.27% for all equity REITs. The total return for the self-storage segment through February this year was 4.67%, compared with 2.84% for all equity REITs. Of course, self-storage REITs underperformed the Standard & Poor's 500-stock index' gains of 37% in 1995. But dividends of up to 8%, vs. about 2% for the S&P 500, add greater stability to a REIT's return. "A higher proportion of total return comes through current dividends than share-price appreciation," compared to the average S&P stock, says Mark McAllister, a REIT analyst with Cohen & Steers Capital Management, Manhattan-based money managers.

What's more, if you're worried about the lofty stock market, REITs make good defensive plays. "On Mar. 8, when the Dow was down 3%, equity REITs were down 1.5%," notes NatWest Securities REIT analyst William Acheson. Just as important is the traditionally recession-proof nature of self-storage REITs: Storage buildings experience increased demand during recessions as people are forced to move into smaller quarters and need to store their belongings.

Self-storage facilities have been around for a while, but the REITs are relatively new. Of the 19 self-storage REITs, 15 are former private partnerships affiliated with Public Storage, formerly Storage Equities, which went public in 1980. The remaining four have gone public since 1993. All are on an acquisition binge now that many mom-and-pop operators want to sell out and properties can be snatched up cheaply.

This is a highly fragmented industry, with the top 10 companies controlling a mere 12% of the total 1.3 billion square feet. Yet with a few changes, such as strengthening collection of late rental fees and increasing marketing, acquirers are improving earnings, cash flow, and operating margins significantly.

With 1 in 25 Americans leasing self-storage space, demand is strong, and vacancy rates should remain low. Don't expect the high total returns of the last two years, analysts say, but respectable growth of 12% to 15% is predicted.

GOOD VALUES. The industry got a huge vote of confidence recently, when real estate guru William Sanders agreed to buy 28% of Storage USA for $220 million through his Security Capital U.S. Realty. Clearly, he liked what he saw: good management, 93 well-planned acquisitions in major metro areas in 1995, and first-year returns of 10% or more on its deals.

Storage Trust Realty has succeeded in turning the 43 properties it in 1995. While it oper smaller cities, Storage boasts the highest margin—65%, vs. 60 the others—notes Mar son, CS First Boston' analyst.

Because of the acqu environment, these RE seen as growth stock are all trading at a pr to net asset value. If looking for value, Sov the cheapest: It's trad about a 5% premium pared with 16% for its Sovran, which has onl public since last Jun has the highest yield group, 7.9%. Another esting company: Shu Storage Centers, who of state-of-the-art tech makes it highly efficier Barry Vinocur, edit *Realty Stock Review.*

Public Storage i largest company, with market share. I pays the lowest div 4.5%, because it earnings back into tions. Some analyst steered investors from Public Storag has had a long rec sponsoring limited nerships in which it as a general partn put its interests ah the investors," Vinocur. Last Nov following the mer Storage Equities Public Storage, the pany changed its ture, "becoming a self-advised, self-ma REIT," according to ident Harvey L "There were man sons for doing it, which was to r potential confli interest," he sa

The ease of market the commodity nature business, and the poss of overbuilding loom tential problems for sel age REITs. But these cerns aren't likely to lo growth of these REIT time soon. *Toddi G*

A Promising Group of REITs

COMPANY (SYMBOL)	SHARE PRICE 4/8/96	CURRENT DIVIDEND YIELD
PUBLIC STORAGE MANAGEMENT (PSA)	19¼	4.5%
SHURGARD STORAGE CENTERS (SHU)	25⅛	7.1
SOVRAN (SSS)	25⅝	7.9
STORAGE TRUST (SEA)	21⅛	7.5
STORAGE USA (SUS)	33½	6.7

DATA: COHEN & STEERS, CS FIRST BOSTON, BLOOMBERG FINANCIAL MARKETS

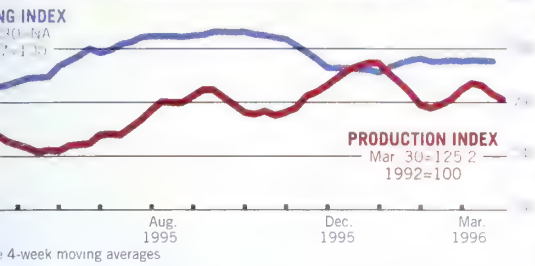
iness Week Index

CTION AND LEADING INDEXES

om last week: –0.4%
om last year: 1.9%

NA

NG INDEX
30=NA



4-week moving averages

tion index slipped in the week ended Mar. 30. Before calculation -week moving average, however, the index rebounded to 125, from sonally adjusted auto and truck production bounced back after the strike at General Motors Corp. For the entire month of March, the at 125.2, down from 126.1 in February.
index was unavailable for the latest week.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/6) thous. of net tons	2,045	2,103#	2.6
AUTOS (4/6) units	108,022	121,963r#	–18.6
TRUCKS (4/6) units	105,897	128,902r#	–10.4
ELECTRIC POWER (4/6) millions of kilowatt-hrs.	55,38[illegible]	57,670#	2.2
CRUDE-OIL REFINING (4/6) thous. of bbl./day	13,867	14,044#	2.6
COAL (3/30) thous. of net tons	20,672#	21,404	0.8
PAPERBOARD (3/30) thous. of tons	NA#	[illegible]82,3[illegible]r	NA
PAPER (3/30) thous. of tons	NA#	817.0r	NA
LUMBER (3/30) millions of ft.	472.0#	460.[illegible]	8.2
RAIL FREIGHT (3/30) billions of ton-miles	25.5#	25.2	4.5

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

NG INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
ICES (4/4) S&P 500	655.18	649.21r	29.7
TE BOND YIELD, Aaa (4/4)	7.41%	7.39%	–7.9
AL MATERIALS PRICES (4/4)	109.9	109.8	–3.6
FAILURES (3/29)	NA	345	NA
ATE LOANS (3/27) billions	$506.6	$507.3r	7.8
PPLY, M2 (3/25) billions	NA	$3,693.9	NA
LAIMS, UNEMPLOYMENT (3/23) thous.	433	386	28.1

enter for International Business Cycle Research (CIBCR), Standard & dy's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures panies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on lures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/10) $/troy oz.	394.550	394.650	0.9
STEEL SCRAP (4/9) #1 heavy, $/ton	139.50	139.00	1.5
COPPER (4/6) ¢/lb.	117.1	119.9	–18.3
ALUMINUM (4/6) ¢/lb.	77.0	77.9	–16.1
COTTON (4/6) strict low middling 1-1/16 in., ¢/lb.	84.27	82.19r	–15.4
OIL (4/9) $/bbl.	23.02	22.45	16.0

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FUNDS (4/9)	5.07%	5.29%	5.98%
IAL PAPER (4/10) 3-month	5.41	5.36	6.13
ATES OF DEPOSIT (4/10) 3-month	5.37	5.35	6.12
RTGAGE (4/5) 30-year	7.99	8.00	8.61
LE MORTGAGE (4/5) one-year	5.76	5.77	6.40
10)	8.25	8.25	9.00

ederal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/10)	108.4[illegible]	106.89	83.32
GERMAN MARK (4/10)	1.50	1.48	1.40
BRITISH POUND (4/10)	1.51	1.53	1.60
FRENCH FRANC (4/10)	5.09	5.04	4.87
ITALIAN LIRA (4/10)	1571.0	1562.7	1709.0
CANADIAN DOLLAR (4/10)	1.36	1.36	1.38
MEXICAN PESO (4/10)[3]	7.483	7.508	6.310

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

E WEEK AHEAD

STARTS

Apr. 16, 8:30 a.m.EDT ▶ Housing ably fell back to an annual rate illion in March, says the median economists surveyed by MMS nal, one of The McGraw-Hill Com- mebuilding stayed remarkably the winter months. Starts rose anuary and 3% in February, to a on pace. Now, however, higher rates have reduced demand.

AL PRODUCTION

Apr. 16, 9:15 a.m.EDT ▶ Output on's factories, mines, and util- bly fell by 0.4% in March, says recast. That's suggested by the weakness in the March report from the National Association of Purchasing Management, the drop in manufacturing payrolls, and the strike at General Motors Corp. Industrial production bounced back 1.2% in February, after the blizzard cut output in January. Operating rates for all industry likely slipped to 82.4% in March, from 82.9% in February.

PHILADELPHIA FED SURVEY

Thursday, Apr. 18, 10 a.m.EDT ▶ The financial markets have begun to notice the Federal Reserve Bank of Philadelphia's survey of area businesses because it is one of the earliest readings of each month's economic activity. The bond market rallied when the Mar. 21 report said that the March general economic index fell to –0.1, meaning slightly more businesses saw a slowdown than reported better growth.

TREASURY BUDGET

Friday, Apr. 19, 2 p.m.EDT ▶ The Treasury Dept. will probably report a deficit of $44.5 billion in March, says the median MMS forecast. That's better than the $50.5 billion shortfall in March, 1995. However, the deficit could be higher because the government is still playing catch-up in outlays after the last shutdown, and tax refunds are running above last year's levels. Still, the budget deficit seems on track to total about $150 billion for fiscal 1996, which ends in September.

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estment Figures of the Week

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ulent week in the finan-
—especially for bond
bond market got spooked
t. figures showing greater
d growth in employment.
economic growth raised
f rising rates and infla-
the yield on the 30-year
d from 6.62% up to
s joined in the market
d the Dow Jones industri-
unged 140.5 points in
ing on Apr. 8 before end-
down 3.7%. The week
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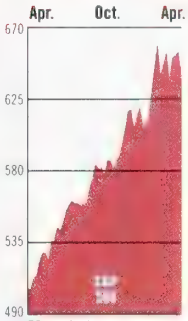
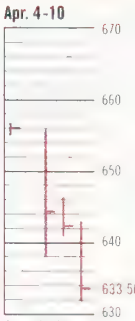
STOCKS

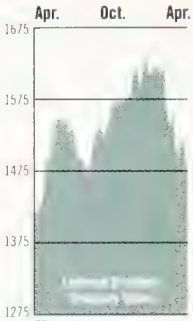


52-week change
+24.9%



1-week change
-3.4%

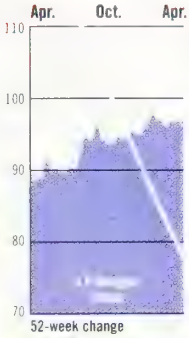
BONDS



52-week change
+2.4%

1-week change
-3.4%

THE DOLLAR



52-week change
+8.5%

1-week change
+0.9%

T ANALYSIS

KS	Latest	% change Week	% change 52-week
NDUSTRIALS	5486.0	-3.6	30.7
MPANIES (S&P MidCap Index)	227.6	-1.9	23.3
ANIES (Russell 2000)	331.0	-0.9	25.9
IES (Russell 3000)	362.8	-3.1	25.6

TOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ANCIAL TIMES 100)	3767.4	1.1	17.4
EI INDEX)	21,791.7	1.5	33.3
E COMPOSITE)	5023.6	0.0	16.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.09%	5.15%	5.78%
30-YEAR TREASURY BOND YIELD	6.94%	6.62%	7.36%
S&P 500 DIVIDEND YIELD	2.19%	2.13%	2.60%
S&P 500 PRICE/EARNINGS RATIO	18.7	19.3	16.6

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	600.1	598.2	Positive
Stocks above 200-day moving average	62.0%	68.0%	Neutral
Speculative sentiment: Put/call ratio	0.59	0.56	Negative
Insider sentiment: Vickers sell/buy ratio	2.40	2.44	Neutral

BLOOMBERG FINANCIAL MARKETS

TRY GROUPS

H LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
GAS DRILLING	25.0	64.1	ROWAN	42.0	113.0	14 3/8
EQUIPMENT AND SERVICES	15.1	43.4	SCHLUMBERGER	18.2	43.3	86
ENTATION	12.3	35.6	PERKIN-ELMER	19.4	84.0	54 3/4
C OIL	11.0	12.9	LOUISIANA LAND	23.7	38.2	48 7/8
BILES	9.2	33.1	FORD MOTOR	13.2	31.0	35 3/4

H LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
	-9.7	27.4	PHILIP MORRIS	-10.4	32.7	89 3/8
ASTING	-7.4	21.6	COMCAST	-16.1	5.4	17
ILDING	-6.8	17.5	PULTE	-10.0	21.1	25 7/8
CTURED HOUSING	-5.8	6.2	FLEETWOOD ENTERPRISES	-5.8	5.4	24 1/4
ANTS	-5.1	32.1	McDONALD'S	-7.1	35.0	47 1/4

L FUNDS

MORNINGSTAR INC

total return	%
AGGRESSIVE GROWTH	15.5
R AGGRESSIVE SMALL CAP. EQUITY	14.8
REET RESEARCH GLOBAL RES. A	14.1

tal return	%
LECT EQUITY	78.8
APITAL APPRECIATION	75.5
ND GOLD	74.5

LAGGARDS

Four-week total return	%
UNITED SERVICES GOLD SHARES	-3.7
LEXINGTON STRATEGIC INVESTMENTS	-3.2
MERRILL LYNCH TECHNOLOGY B	-2.5

52-week total return	%
STEADMAN TECHNOLOGY GROWTH	-19.7
EV MARATHON GREATER INDIA	-17.6
UNITED SERVICES GOLD SHARES	-10.0

IVE PORTFOLIOS

DR/McGRAW-HILL

nts represent the
ue of $10,000
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s indicate
tal returns

U.S. stocks
$13,016
-1.77%

Foreign stocks
$11,529
+0.10%

Treasury bonds
$11,263
-2.72%

Money market fund
$10,550
+0.11%

Gold
$10,248
-0.01%

is page are as of market close Wednesday, Apr. 10, 1996, unless otherwise in-
stry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 9. Mutual fund returns are as of Apr. 5. Relative portfolios are valued as of Apr. 9. A more detailed explanation of this page is available on request. r=revised

SHARE THE WEALTH WITH THE WORKFORCE

With Demi Moore getting $12 million a picture and the Seattle Mariners' Ken Griffey Jr. pulling in $7 million a season, it's hard to begrudge the average CEO of America's largest companies the $3.7 million in compensation paid in 1995. Corporate profits rose by a hefty 15%, the Standard & Poor's 500-stock index jumped by 37%, and Corporate America had a banner year. So bravo to the record 556 executives who pulled down $1 million or more. Movie stars, sports champions, celebrity authors, and business execs are all part of the nation's star system, which clearly is alive and well.

There's the rub. The Big Business-bashing by Pat Buchanan and the uproar over corporate responsibility (led as much by social conservatives as by liberals) have less to do with success at the top than with the failure to share the wealth with employees at the bottom and middle. Adjusted for inflation of about 3%, executive pay jumped 27% while white-collar gains averaged 1.2% and factory employees' pay fell by 2%. It doesn't take a brain surgeon to see why millions of people who worked hard to make their companies competitive feel shafted (page 100).

They are angry at the way the profits are distributed. They think it is unfair, and they are right. We have a few solutions. First, spread the real wealth—equity—through the company. Years ago, corporate governance reformers demanded that executives tie their pay to performance, measured by how well a company's stock fares. Rising stock prices have since sent CEO compensation soaring. It's let a lot more people in on this great reward system. Lambert Co. is providing options to all of its 37,000 e ees. Other companies might prefer to dramatically op stock option pool for all middle managers and create pools for other employees.

A new rationale for awarding options to top execu in order as well. Lavish grants pegged directly to prices make some very mediocre CEOs stupendous when declining interest rates send the entire stock mar as they did in 1995. We prefer premium price options premium pricing, a CEO can be required to deliver, say, gain in the share price before the executive even be profit from any options. Boards should also require exe to become substantial owners and share in the risks wards of all direct investors. One way is to pay bon stock instead of cash.

There is a growing backlash against business in Ame working people. With many angry employees ventin rage by turning to extremist politicians, it is time to sh gain, as well as the pain, of global competitiveness. C tions exist in a social and political context where a s equity, as in fairness, is a key value that can be i only at their own peril. Fortunately, equity, as in stoc tool that can be used to restore a fairer balance to Co America's skewed compensation.

KEEP RUSSIAN CAPITALISM ALIVE

If elections were held now in Russia, a communist restoration would probably occur. The people swept back to power would not be the nouveau-communists now running Poland in a social democratic manner but the hard-line state planners of the cold-war era. Should Communist Party presidential candidate Gennady Zyuganov beat Boris Yeltsin in June, it would be the second time in a century that the transition to market capitalism was interrupted by communism before it could take root in Russian society.

It's easy to forget that Russia was moving toward a capitalist economy in the late 19th and early 20th centuries. The first interruption, the Russian Revolution of 1917, was marked by civil war and violence across Europe. A second interruption could do the same. The West must do all it can to prevent it.

There are eerie parallels. The Russian Revolution was backed by groups who lost out to new technologies, the opening of the economy to foreign trade and investment, and the rise of a private sector in a feudal society. A new class of rich entrepreneurs arose as traditional safety nets were torn apart. Set adrift, millions turned to political extremists for help. The ric resonance with 1996 is startling.

is why, this time, it is critical for Russia to complete its transition to capitalism. Moscow is currently off state-owned assets. It is no surprise that the w nected and powerful are reaping the benefits in an corruption. This happened in China, Mexico, and wh state assets are privatized. When the U.S. federal g ment disposed of the frontier in the 19th century, a Wil developed, with corrupt towns and cattle barons b sheepherders and farmers for control. It took decades Texas Rangers and local sheriffs to build law and ord

Russia needs that kind of time. As bad as corruptio day, it is the path to a true market economy that can what communism never could: living standards on a pa the West. Paradoxically, just as the communists appear to take over again, the economy is beginning to grov years of decline. Yeltsin has succeeded in stopping Russ perinflation. The ruble is finally stable. The country see 3% growth in 1997 and 4% to 5% in 1998, providi and income for those who lose out in the transition.

The International Monetary Fund is doing the righ by lending $10 billion to Russia. President Clinton's up summit with Yeltsin will also help. Russia and the can't afford another interruption on the road to capita

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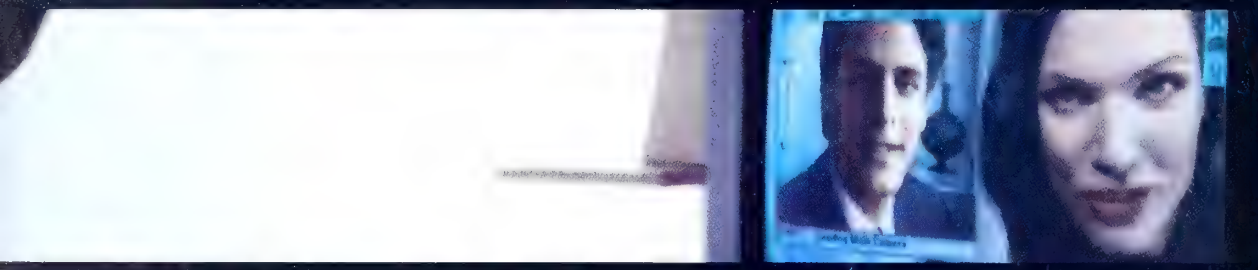

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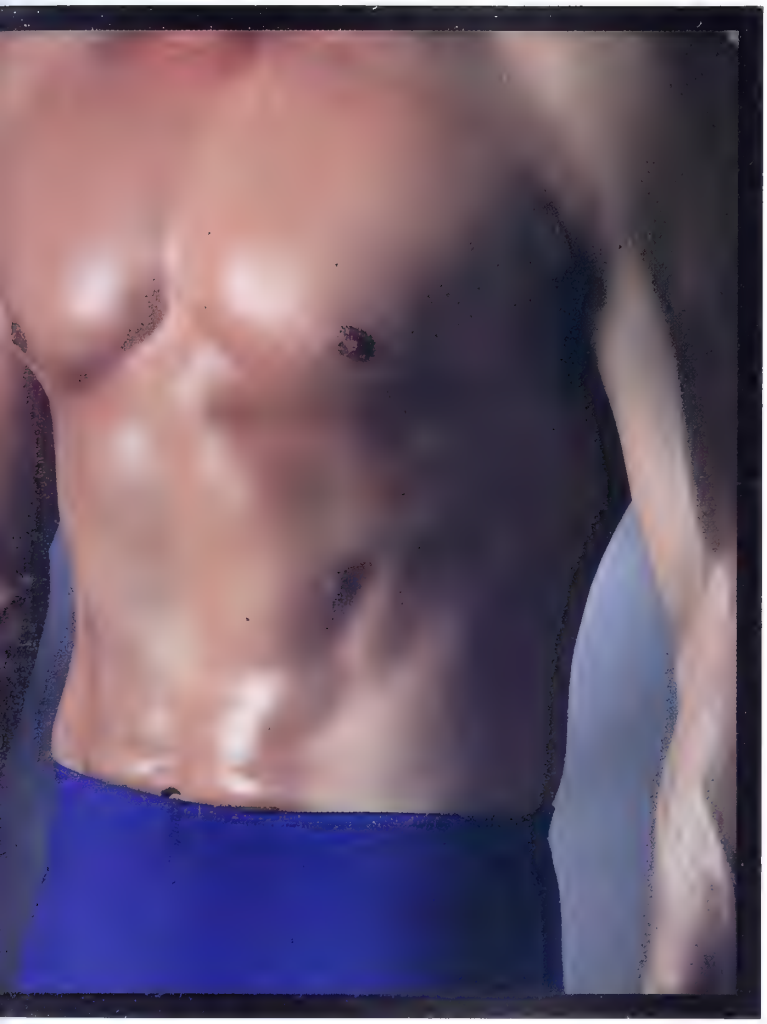

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→ WE'RE NOT SAYING THEY KNOW SOMETHING YOU DON'T. BUT HEY, THEY DID FIGURE OUT HOW TO FISH FOR A LIVING. ←

When your job is fishing, the toughest part of your day is usually the commute. So it's no surprise that Toyota Fishing Team members Tommy Martin and Kevin VanDam chose the power and comfort of the T100 Xtracab.

With a 24-valve, 190-horse V6, it has more power than both the Ford F-150 and the Dodge Ram.* Tommy, who puts over 30,000 miles a year on his truck, says he chose the T100 for its rugged power and durability. Kevin says he believes the T100's confident handling and comfortable ride make it the best towing truck on the road.

Of course you'd expect guys like Tommy and Kevin to appreciate the power and sophistication of the Toyota T100 Xtracab. After all, why spend your time fighting a truck, when you'd much rather be fighting fish?

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*1996 T100 V6 vs. 1996 Ford F-150 and Dodge Ram pickups with standard 6-cyl. engines.

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MERRILL LYNCH CMA®	$100	NO	NO	YES	$20,000
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SMITH BARNEY	$50	NO	NO	NO	$10,000
DEAN WITTER	$80	NO	NO	NO	$10,000

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BusinessWeek

APRIL 29, 1996

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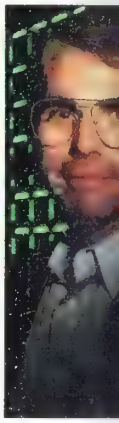

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Is India about to throw it all away?

Up Front

EDITED BY LARRY LIGHT

TALK SHOW "At some point, babies learn to crawl, ther they can walk."

—RJR Nabisco Chairman Charles Harper, when a shareholde asked how an infant could avoid secondhand smoke

LITIGATION NATION

AIR ASSAULT ON EXCESS AWARDS

BUSINESS IS MOUNTING AN ad blitz against Bill Clinton's planned veto of product-liability reform. Costing up to $5 million, it focuses on three crucial Midwestern states.

The White House's "mindset is the electoral college, so ours will be, too," says Dirk Van Dongen, president of the National Association of Wholesaler-Distributors—a backer of the bill curbing lawsuits alleging defective products. His and other business groups plan to unleash barrages of TV, radio, and print ads in Ohio, Michigan, and Illinois. Their stated goal is to change Clinton's mind on the veto, expected in a few weeks.

The opening blast, from the National Federation of Independent Business: a 60-second radio spot with Pete Van de Putte, owner of a small San Antonio flagmaking company, castigating Clinton as close to "rich trial lawyers" backing the veto. In this ad (cost: $600,000), Van de Putte complains that he had to pay $6,000 in a settlement involving several flagmakers. The plaintiff was injured while lowering a large flag on a windy day. Van de Putte says he didn't even make the offending flag.

CLINTON: *Veto pen poised*

Opponents of the bill say that the business groups' real motive is simply to punish Clinton politically. □

CORPORATE COUPLINGS

WHY FORD DIDN'T JUNK MAZDA

TURNS OUT FORD, WHICH JUST moved to take a controlling stake in Mazda, wasn't always so gung-ho about the Japanese carmaker. Over the past year, top Ford execs wondered if they needed it any longer. Says Wayne Booker, an exec veep: "We asked ourselves: 'Was the old, historic relationship still of value?'"

Enter Henry Wallace, the Ford executive sent to Japan to help money-losing Mazda recover. He lobbied hard with Dearborn to stick with Mazda. Now, Ford has upped its 25% of Mazda (acquired in 1979 for its small-car know-how) to 33.4% with a $481 million cash infusi and made Wallace its foreign president. Thank him, Mazda will break for the year ending Mar.

Mazda's main salvat Ford now sees it as a br to the promising Asian ket. Besides, Ford coul just dump its Mazda st Few would leap at a co ny with a 1993-94 loss of million. *Keith Naug and Edith Hill Updike*

MAZDA: *Dearborn's entrée to A*

HONCHOS

ADM'S BOARD SHOWS SOME TRUE GRIT

A NEWLY ASSERTIVE BOARD AT Archer Daniels Midland is behind its recent conciliatory posture toward its foes. A bloc of directors has successfully pushed the company to settle a potentially damaging civil lawsuit over alleged price fixing for feed ingredient lysine.

The turn of events is striking. The board has long been knocked for its close ties to strong-willed Chairman Dwayne Andreas. He is the sort who has been known to shout down shareholders. But insiders say there's no evidence of a conflict between Andreas and the board. These are people he knows well and trusts, such as mer Chairman John Dan

Aside from settling the il suit, the directors' clout is seen in a plan overhaul of the board: management directors ex Andreas are to step d this fall—that's three pe Some directors want a to formal policy requiring employees to avoid anticompetitive acts.

ANDREA *Mellowi out a bit*

Topping the board's wish list is to quickly dispose of expected criminal antitrust charges. "This is an episode we want to behind us," says Daniels. plea negotiations have curred yet with the Jus Dept. Problem: Such t could pit shareholder in ests (which the board n uphold) against those of executives targeted indiv ally by the feds. *Burns and Richard Melc*

STREET NEWS

FROM YAHOO! TO YAWN!

LOOKING FOR THAT NEXT Yahoo!-size blowout IPO? Coming up, say analysts, are a pair of similar search-type services: McKinley Group, started in 1993 by Christine and Isabel Maxwell (father Robert was the late publishing magnate) and two-year-old Infoseek, led by former Frame Technology founder Steven Kirsch.

But don't call your broker yet. Despite the significant business experience behind these fledglings, the investment performance of search services is mixed. Yahoo! shot up and now is 108% above its $13-per-share first-day offering price. But for every marketing success, a dog is not far behind. Lycos and Excite also went public in April. Lacking the cool name and brand recognition of Yahoo!, their share prices have languished and is now south of the offering price.

NET IPOs: BOOM OR BUST

(COMPANY/OFFERING DATE)

	YAHOO! (04/12)	EXCITE (04/04)	LYCOS (04/02)
OFFERING PRICE	13	17	16
APR. 17 CLOSE	27	13½	15

DATA: BLOOMBERG FINANCIAL MARKETS

Substantial profits for this crew—all of which make most of their money from running ads—are years off. Even Yahoo! (1995 sales: $1.4 million) was in the red last year. Its future, say analysts, is the rosiest of the recent batch, but who knows? This industry is so new that calling a winner now is a crapshoot. *Robert Hof*

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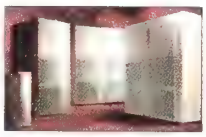

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Up Front

NEW WORLD ORDER

THE BEAR CAN STILL SNIFF OUT ARMS SALES

RUSSIA'S ARMS DEALS ARE surging back from a steep slump that followed the 1991 Soviet breakup. Russian arms deliveries rose 65% last year, to $2.8 billion. That could reach $8 billion annually by 2000, predicts the Stockholm International Peace Research Institute.

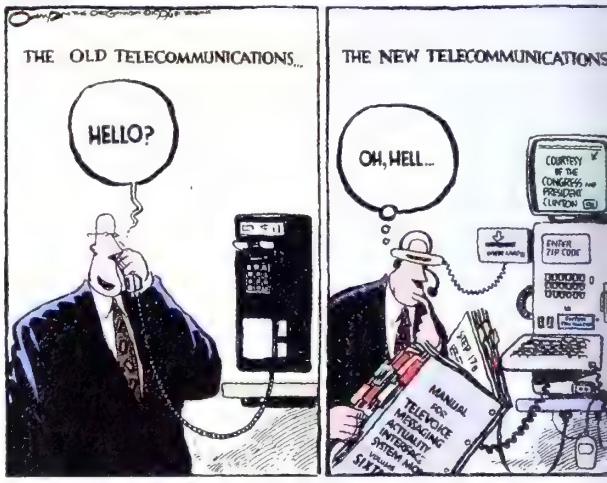
YO, STRONGMAN!
Need a Su-27?

The United Arab Emirates, long dependent on Western arms, just received $200 million worth of Russian weapons, including Smerch multiple-launch rocket systems. Beijing's recent saber-rattling over Taiwan was backed with Russian Sukhoi-27 fighter planes.

Russia's military-industrial sector has little choice but to export, since its own military is purchasing few weapons and often can't pay for what it does buy. What's boosting Russian arms exports, though, is better marketing, not technology. After all, Iraq's Russian equipment performed poorly during the Persian Gulf War.

The U.S. has been the world's leading arms supplier (global market share: 60%-plus) since the Soviet collapse. Facing military cutbacks, America's own aggressive export push yielded deliveries worth $9 billion last year. *Patricia Kranz*

DRAWN & QUARTERED

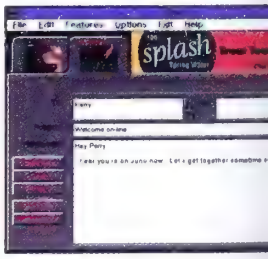


I-WAY PATROL

FREE E-MAIL, BUT WITH A CATCH

HERE'S A NEW BID TO EARN money off the Internet: a free E-mail service that runs ads. Many World Wide Web sites, such as Yahoo, already carry advertising, but users must pay for an Internet connection to view them. Juno Online Services, soon to be available, figures that gr E-mail will attract the us

Juno, which can be tap via an 800 number, wil able to send mail to any ternet address without n ing a Net service provi Users can download its s ware from www.juno.c Ads, which change each t you dial into Juno, appear as a banner along the scre top edge. Viewers may on the banner and get a



screen or more of cyberspiel.

The fledgling service plans to tailor its ads to individual subscribers, using an E-ma profile they fill out when s ing up. Juno says it may lists of subscribers who ag to receive junk E-mail. J advertisers include Snap Quaker Oats, and Mirama

The force behind thi New York investment ban David Shaw. Shaw, a for Columbia University com er-science prof, and others bankrolling Juno up to million. *John Ve*

CYBE
This brou you

CAR TALK

EIGHTY MILES PER GALLON? WELL . . .

AN AFFORDABLE FAMILY sedan that gets 80 miles per gallon? That's the dream of a research partnership between the feds and Detroit. Well, dream on. A government researcher says about 40 mpg by the year 2015 is more likely economically.

Here's why the 80 mpg goal—set by the government-industry Partnership for a New Generation of Vehicles (PNGV)—isn't practical, according to David Greene, senior researcher at Oak Ridge National Laboratory: A car getting that mileage would cost at least $6,000 more than the current average, maybe even $40,000 extra, Greene says, using data from the now-defunct Office of Technology Assessment. In contrast, he says, a 40 mpg car with PNGV technology would cost only about $350 extra, which would be more than offset by lifetime fuel savings of $550.

ADDED COST PER CAR

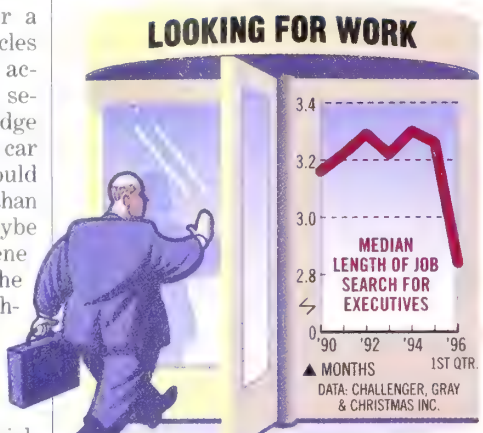
40 MPG	80 MPG
$350	$6,000

DATA OAK RIDGE NATIONAL LABORATORY

By Greene's reckoning, it's vital that mileage improve, even if only to 40 mpg (it's now at 28.5). Reason: Americans drive about 2% more miles per year, so 40 mpg would be enough only to keep gas consumption at current levels. That means air pollution, continued dependence on foreign oil, and greenhouse gases linked to global warming.

PNGV is still aiming for the higher target. Says spokeswoman Ann Smith: "Nobody is saying the 80 mpg goal is easy." *Peter Coy*

THE BIG PICTURE



Good news on the job front: Executives are landing jobs faster. The still-strong economy is one factor. But also, says consultant James Challenger, the downsizing trend has made employers quicker to hire because they have fewer qualms now about firing people.

FOOTNOTES Average size of home buyers' current home: 1,700 square feet; home size they seek: 2,200 square feet

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United Airlines	78.8
USAir	57.0
Northwest Airlines	49.4
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Delta's 1995 Service Awards

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Best Domestic Short-Haul Carrier
Best Domestic Long-Haul Carrier

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Business Traveler International
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Business Traveler International
Best Economy Class

USA Today (Int'l Edition)
Best U.S. Domestic Airline

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Readers Report

THIS ONLINE MALL IS OPEN FOR BUSINESS

I was surprised to read that at Time Warner Inc.'s Full Service Network in Orlando, its "ambitious online mall [has] been scrapped" ("I-Way or no way for cable?", Special Report, Apr. 8). This will come as an even greater surprise to the 4,000 FSN customers who continue to browse the online mall, as they have for some months.

In fact, contrary to your reporting, the mall now offers more than 250,000 products from such well-known vendors as Williams-Sonoma, Spiegel, Crate & Barrel, and Sharper Image.

Michael Luftman
Vice-President for
Corporate Communications
Time Warner Cable
Stamford, Conn.

DON'T SEND A FAMILY DOCTOR TO DO A SPECIALIST'S JOB

In your articles, it was good to see that some of the large purchasers of health care are beginning to recognize that it is not wise to focus exclusively on cutting costs without also focusing on disease prevention and the quality of care being provided to their employees ("Health care: The quest for quality" and "Oxford's education," Social Issues, Apr. 8).

The move to a primacy of primary care providers—and the diminishing role of specialists, within the context of the way knowledge in medicine has been advancing of the past years—is counterintuitive. At a time when new knowledge about diseases and their treatment has been accelerating at a phenomenal rate, requiring more and more specialized knowledge, we appear to be moving back to a time when there was very little that medical science could do for a patient, and a single general practitioner could provide most of what medicine had to offer.

Now, when even the specialists are unable to keep up with their advances within their own specialties, it appears illogical to suggest that we sh go back to the days of the fa doctor.

Lester E. Block, I
Dire
Graduate Studies in Public He
University of Minne
Minnea

CORRECTIONS & CLARIFICATION

In "A tobacco deal that could clear the (News: Analysis & Commentary, Apr. there were several calculation errors. impact on the cigarette industry of a 2 per-pack excise tax would run $6.25 bil a year, and the impact on RJR Nabi products would be $1.5 billion. RJR Na co's stock market value, though, co increase by $5.6 billion a year if all liti tion were lifted. We reported larger figu in each instance.

In Investment Figures of the Week (Apr. the four-week mutual-fund laggards w incorrectly listed. The three laggards w Steadman Technology Growth, Merrill Ly Technology C, and Smith Barney Telec munications Income, which was d 4.6%. MFS/Foreign & Colonial Internati al Growth & Income B Fund, which was 1.2%, should not have been on the

In "Come winter, a greener hill?" (Gove ment, Apr. 15), Celinda Lake was misid tified as a pollster for Democratic C gressman Ron Wyden. Lake conducted survey for the League of Conservation V ers and the Sierra Club. Wyden's poll was Mark Mellman.

In "Health care: The quest for qual (Social Issues, Apr. 8), a consultancy's na was misspelled. The correct name William M. Mercer Inc.

THOMSON'S LEGAL IS PLAYING BY THE RULES

We disagree with Benjamin Pi assertion that Thomson Corp.'s pen acquisition of West Publishing C

Business Week

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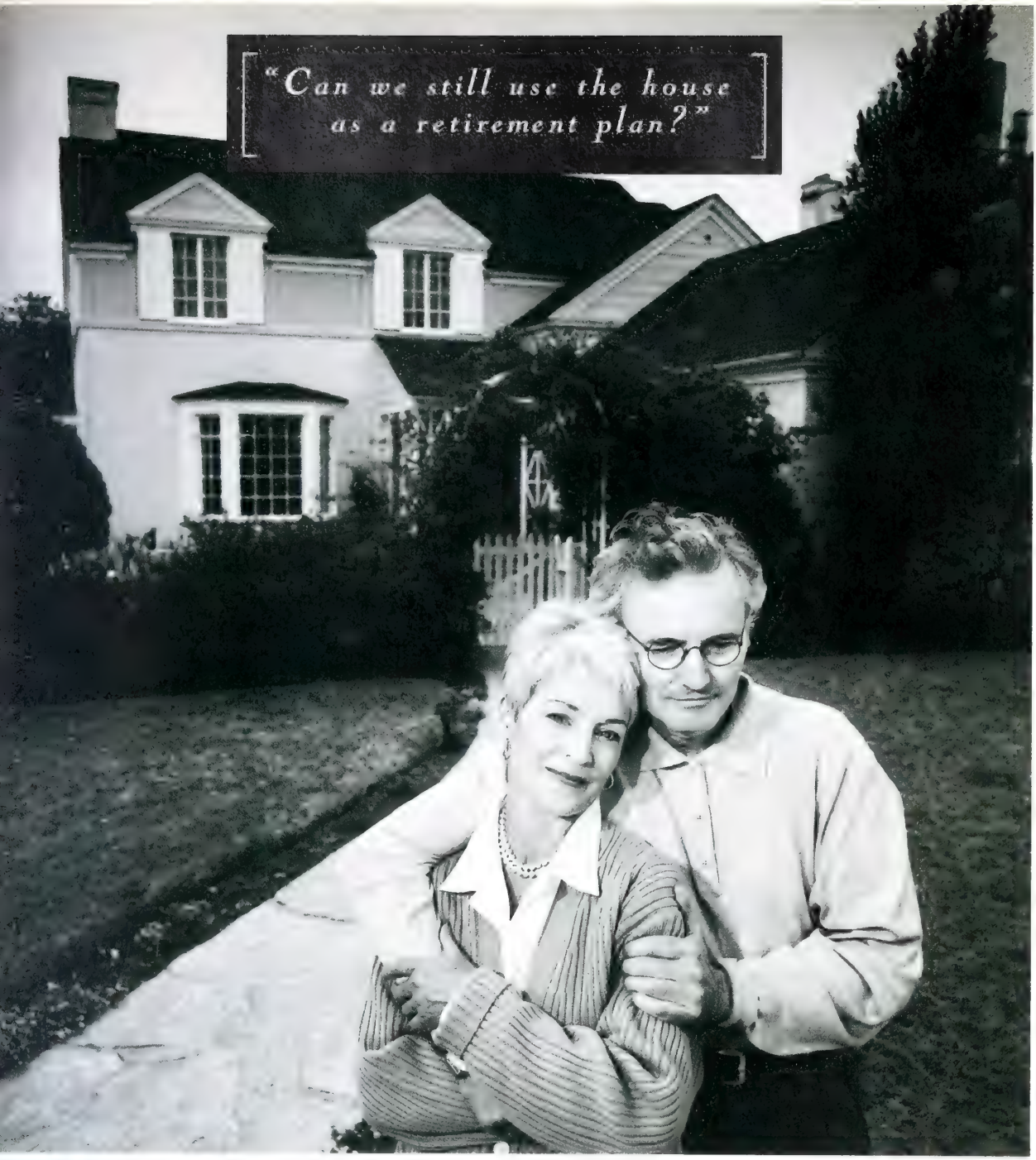

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search products to provide what
customers want.

Brian H.
President &
Thomson Legal Publis
Rochester,

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something I read in BUSINESS
brought a tear to my eye, but
commentary on David Packard "I
Packard: Silicon Valley's class
(News: Analysis & Commentary,
8), did just that. I would like to t
you for one very beautiful and insp
piece.

David Mus
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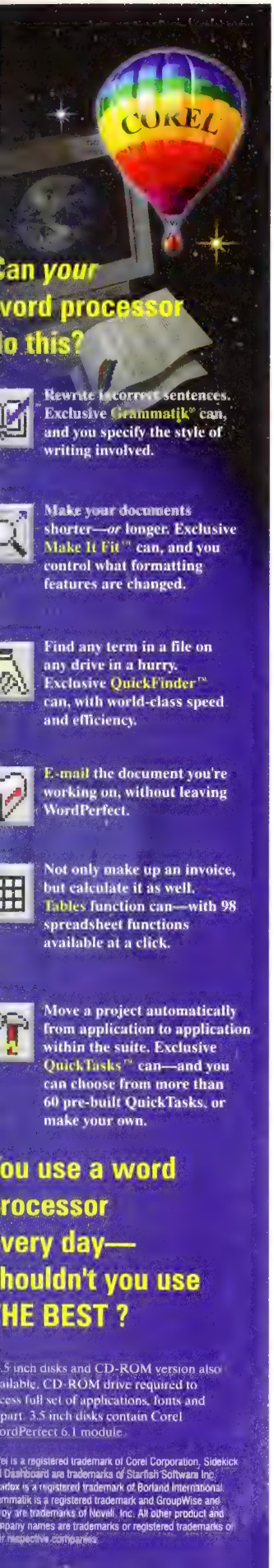

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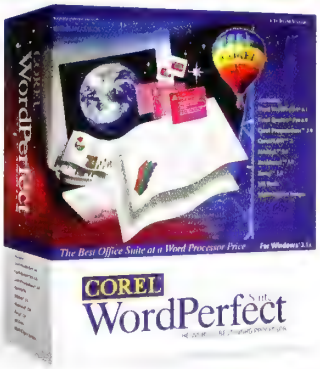

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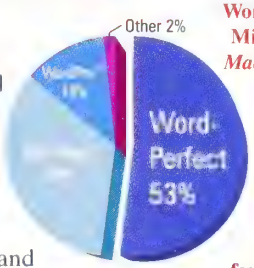

U.S. shipments of standalone word processors, 1995—1.77 million units
Source: Computer Intelligence InfoCorp

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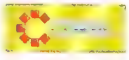

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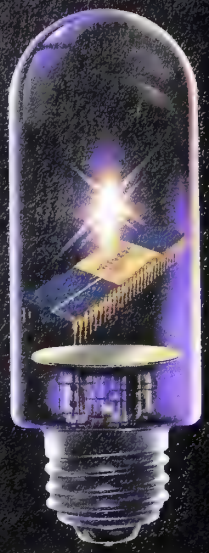

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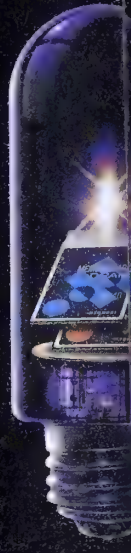

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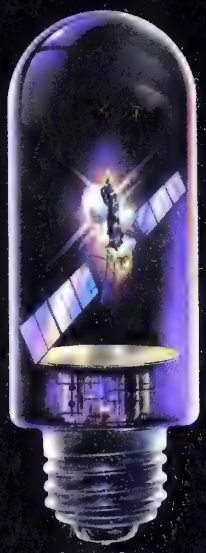

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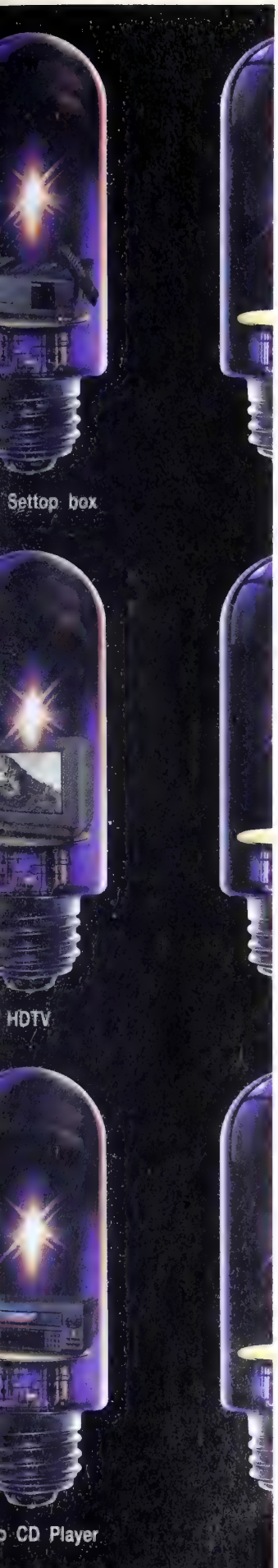

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THE BUSINESS WEEK BEST-SELLER LIST

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2 **THE BEARDSTOWN LADIES' STITCH-IN-TIME GUIDE TO GROWING YOUR NEST EGG** by the Beardstown Ladies Investment Club with Robin Dellabough (Hyperion • $19.95) *The team from Illinois turns to retirement planning.*

3 **THE ROAD AHEAD** by Bill Gates, with Nathan Myhrvold and Peter Rinearson (Viking • $29.95) *Observations on the I-way and a peek at the $30 million house that Bill built.*

4 **BUILT TO LAST** by James C. Collins and Jerry I. Porras (HarperBusiness • $25) *How 3M, Wal-Mart, Procter & Gamble, and others became standouts.*

5 **THE FUTURE OF CAPITALISM** by Lester C. Thurow (Morrow • $25) *Is the economic system headed for a new dark age?*

6 **THE DISCIPLINE OF MARKET LEADERS** by Michael Treacy and Fred Wiersema (Addison-Wesley • $25) *Consultants diagnose what successful companies do.*

7 **EMPOWERMENT TAKES MORE THAN A MINUTE** by Ken Blanchard, John P. Carlos, and Alan Randolph (Berrett-Koehler • $20) *A motivational how-to in story form.*

8 **INSIDE THE TORNADO** by Geoffrey A. Moore (HarperBusiness • $25) *Lessons on marketing from Silicon Valley.*

9 **RAVING FANS** by Kenneth Blanchard PhD and Sheldon Bowles (Morrow • $20) *Turning customers into your biggest boosters.*

10 **MEGATRENDS ASIA** by John Naisbitt (Simon & Schuster • $24) *Look eastward, executives.*

11 **MANAGEMENT OF THE ABSURD** by Richard Farson (Simon & Schuster • $21) *The paradoxes of management, as seen by a psychologist.*

12 **THE DIGITAL ECONOMY** by Don Tapscott (McGraw-Hill • $24.95) *How the Infobahn is changing business.*

13 **THE LOYALTY EFFECT** by Frederick F. Reichheld (Harvard Business School • $24.95) *How loyalty between management and employees spurs company growth and profits.*

14 **SACRED COWS MAKE THE BEST BURGERS** by Robert Kriegel and David Brandt (Warner • $22.95) *Motivating employees to welcome change.*

15 **THE LEADER OF THE FUTURE** by Frances Hesselbein, Marshall Goldsmith, and Richard Beckhard, eds. (Jossey-Bass • $25) *Writers and consultants tell how to have the right stuff.*

PAPERBACK BUSINESS BOOKS

1 **THE SEVEN HABITS OF HIGHLY EFFECTIVE PEOPLE** by Stephen R. Covey (Fireside • $12) *Habitually popular.*

2 **THE BEARDSTOWN LADIES' COMMON-SENSE INVESTMENT GUIDE** by the Beardstown Ladies Investmen Club with Leslie Whitaker (Hyperion • $10.95) *Recipes fo Four-Bean Salad, Five-Hour Stew—and 23% returns.*

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4 **FIRST THINGS FIRST** by Stephen R. Covey, A. Roger Merrill, and Rebecca R. Merrill (Fireside • $14) *Managing your time by balancing your life.*

5 **THE 1996 WHAT COLOR IS YOUR PARACHUTE?** by Richard Nelson Bolles (Ten Speed Press • $14.95) *The enduring job-search bible.*

6 **THE ONLY INVESTMENT GUIDE YOU'LL EVER NEED** by Andrew Tobias (Harcourt, Brace • $12) *How to overcome "money intimidation," now in an updated edition.*

7 **THE ERNST & YOUNG TAX GUIDE 1996** by the Tax Partne and Professionals of Ernst & Young LLP (Wiley • $14.95) *Whew, glad that's done.*

8 **YOUR MONEY OR YOUR LIFE** by Joe Dominguez and Vicki Robin (Penguin • $11.95) *To achieve financial independence, restructure your life.*

9 **1001 WAYS TO REWARD EMPLOYEES** by Bob Nelson (Wo man • $8.95) *Give them a champagne brunch, a casual-dress day—or plain old cash.*

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BUSINESS WEEK's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, ma agement, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represe ed. Current rankings are based on a weighted analysis of unit sales in March.

HOT TYPE

"AN INSTITUTION IS THE LENGTHENED SHADOW of one man," observed Ralph Waldo Emerson. More than 100 years later, despite the rise of individualism-killing bureaucracy and the one-size-fits-all cap, organizations still hanker for leaders who know their own minds and can point the way ahead. But where should they turn for leadership? That's the question tackled by the 30-odd authors, consultants, and executives whose writings appear in *The Leader of the Future* (Jossey-Bass), the No. 15 book on this month's hardcover best-seller list.

From the get-go, the volume repudiates the idea of the born leader. "Leadership must and can be learned," declares Peter F. Drucker in his foreword. Other sections feature such authors as Charles Handy, who describes "the distributed leadersh of dispersed organizations; Peter M. Senge, on the limitati of top brass in effecting change; and Rosabeth Moss Kan whose "world-class leaders" demonstrate "the power of p nering." Frances Hesselbein, president of the Peter F. Dru er Foundation—sponsor of the book—favors letting peo "find significance beyond the task."

Unfortunately, some problems have no good answers. the leader of the future, facing a workforce made anxious downsizing, really be aided by David M. Noer's "recipe glue"? "Fill the glue pot with the fresh, pure, clear wate undiluted human spirit," he instructs. Yeah, and keep y résumé handy.

BY HARDY GR

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DIRTY LITTLE SECRETS
The Persistence of Corruption in American Politics
By Larry J. Sabato and Glenn R. Simpson
Times • 430pp • $25

THE SUBTLER SHAPES OF POLITICAL SLEAZE

In poll after poll, citizens by a wide margin gripe that politics is corrupted by special interests that use their wealth to elect politicians and keep them in power. The view in Washington is very different: Sure, there are isolated cases of political corruption, such as the misuse of taxpayer money that led ex-Representative Dan Rostenkowski to plead guilty to mail fraud on Apr. 9. And the influence of lobbyists is undeniable. Yet the system on balance is clean and works on behalf of the citizenry. So who's right?

Read *Dirty Little Secrets*, and the answer is obvious: the aggrieved public by a mile. Through exhaustive research, University of Virginia political scientist Larry J. Sabato and *Wall Street Journal* reporter Glenn R. Simpson have assembled a compelling set of facts that should give pause to the most jaded pol.

The corruption they describe isn't just the kind of election-rigging that went on in Lyndon B. Johnson's Texas or Richard J. Daley's Chicago. It's more subtle. It entails senior members of Congress who use their powerful posts to shake down business interests for campaign contributions. There are the influential political groups—such as the Christian Coalition and the AFL-CIO—that exploit legal loopholes to spend millions on behalf of friendly members of Congress. Examples abound of dirty tricks that sabotage opponents' candidacies, misuse of congressional staffers for campaigns, high-tech telemarketing operations that spread false rumors about office seekers, and old-fashioned vote fraud and vote buying.

The authors will get an argument from some who'll say the corruption the book tackles is relatively harmless—and largely legal. True, if you narrowly define corruption as bribery, extortion, and graft that personally enriches a public official, the political system is largely corruption-free. But Sabato and Simpson take a broad view of corruption, including marginally lawful but unethical practices. By that measure, they assert, "corruption is not just a danger of political life, it is an unavoidable component of... fundraising, political horse-trading, or campaigning."

Indeed, activities that violate the spirit or the letter of federal campaign laws are so common that politicians and the press tend to shrug them off with an everyone-does-it attitude. Among the most pervasive abusers: tax-exempt organizations that pose as nonpartisan "educational" groups, even though their real goal is to use their taxpayer subsidy to influence political campaigns; members of Congress who take advantage of their free mailing privileges to distribute campaign materials; and candidates who circumvent disclosure rules to hide improper contributions or expenditures.

No matter what their political leanings, readers should become outraged as they digest the authors' detailed account of the Christian Coalition's role in the 1994 congressional elections. On the Sunday before Election Day, the group had arranged for churches around the country to distribute 20 million "voter guides" that were supposed to show how the candidates stood on the issues. Yet in nearly all cases, the guides were written to favor Republicans, often by distorting Democrats' records. Example: The guides said 19 House Democrats voted for "promoting homosexuality to schoolchildren" even though all 19 had actually voted for an amendment that did just the opposite. Equally disturbing is the chapter that describes how commonly campaigns rely on anonymous telephone calls to spread lies about candidates' rec or personal lives.

So why don't the politicians do a thing to stop these sordid practic Because the system is skewed to be fit incumbents. Even in the '94 t wave that swept Democrats out of trol in Congress, nearly 90% of inc bents were reelected. That explains the challenger who swears to ref the political system turns into a fender of the status quo. Consider Clinton and Newt Gingrich (R-Ga.). member when they shook hands in N Hampshire last year, pledging to cl up campaign finance abuses? They barely lifted a finger since.

The book's one glaring flaw is its sity. The detail that bolsters the thors' case is, frankly, boring for average reader. But Sabato and Simp seem less interested in making the b seller list than reaching politicians, porters, and advocates of campaign nance reform.

Another failing is short shrift the authors to remedies, discussing th only in the final chapter. when they get to that to they make sound sugg tions. Sabato and Simp properly rule out taxpaye nanced congressional c paigns as an idea vot won't accept and tigh spending limits as a vi tion of free speech. Inste they call for a change in tax law to make it har for tax-exempt groups to engage in p tisan activity. And they recognize t you can't easily outlaw sleazy campa practices—politicians will soon find loopholes. So the authors propose st gent new disclosure rules on who gi money to candidates and how that mo is spent. "If the facts are really as av as reformers contend... the public be moved to demand change," they s

That's just how it should be. Ur cused public frustration over the curr system won't end the corruption. Bu voters—aided by greater disclosure campaign finances—start bouncing sle candidates from office, the pols quickly get the message.

BY OWEN ULLMA

Ullmann is BUSINESS WEEK's sen news editor in Washington.

THE AUTHORS SAY THAT, FAR FROM BEING RARE, CORRUPTION IS ENDEMIC TO WASHINGTON

EPHEN H. WILDSTROM

IDE SHOWS ITHOUT PAIN

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P makes it simple to an effective and visupelling presentation. d that, it gives you an vay to distribute your show via the World Wide Web, an increasingly important ability as companies turn to Web technology for internal communications.

How simple is ASAP? In line with a growing trend, it has no manual. In addition to a good tutorial and extensive online help, there's a 25-page brochure that focuses more on how to design a presentation than on how to use the program. The software itself is simple enough that I didn't miss a printed manual.

The key to the program's success is its straightforward design. At the start, you have a choice of outline or preview mode. In outline, you simply type the text of your slides, the fastest and easiest way to enter your material. If you use Microsoft Word, you can enter the material in Word's outline format, select the text or graphics, click on the ASAP toolbar button that appears after you install the program, and your work is converted into slides.

Preview mode is where the fun starts. You can select one of 14 basic designs and one of 18 color schemes for your slides. Normally, you will want to keep these consistent throughout a presentation. But you can select from 22 layouts for each slide, choosing the one most appropriate for the content. For example, you might use a bulleted list for your introduction, a set of checkpoints for an agenda, and a flow diagram to describe a decision-making process. If you don't like the format you've chosen, just click another one and the slide instantly changes.

PAYING A PRICE. Of course, you pay a price for all this simplicity. You can't do fancy animations, such as making text appear to move into place, as you can with PowerPoint. And you can't choose from among the 45 different methods PowerPoint offers for transitions from one slide to the next.

What you can do—easily—is make your presentation available to the public over the World Wide Web or to colleagues over an internal network. Once you have put your show on a server, viewers will need the Netscape Navigator 2.0 browser and a free add-in called Webshow, available from the Software Publishing Web site. Using Webshow, slides appear almost instantly, even if someone is connected with a 14.4 kbps modem. Using Progressive Network's RealAudio technology (http://www.realaudio.com/), you can add narration synchronized to the slides on the Web, a feature that has long been available for when you use your computer to make a presentation to an audience.

The best software will never take the anxiety out of presentations. But a program that at least takes some of the pain out of preparation can make life a lot simpler and help you get your point acrosss better.

BULLETIN BOARD

STORAGE

ENDLESS DRIVE

If you're someone who never has enough storage space, then the Jaz drive from Iomega (800 697-7833) is for you. The drive, $499 for an internal version and $599 for an external for either PCS or Macintosh, stores a gigabyte on a removable disk. Disks cost $125 and pop in as easi-

ly as floppies. The Jaz requires an SCSI interface, and Iomega offers the Jaz Jet. The fast Adaptec adapter card runs $99 for a PC version and $149 for Power Mac 7500, 8500, and 9500 models. (Jaz can be used with the built-in Mac SCSI port, but Jet is faster.) Heavy demand has created a shortage, so you may have to wait for a Jaz, especially for external units.

SOFTWARE

STUDENT-LOAN SAVVY

College admission offers are out, and now it's time to figure out how to pay for that education. Kaplan Educational Centers, the Washington Post Co. unit specializing in test-preparation courses, offers a free guide to the financial-aid maze at http://www.kaploan.com. Features include descriptions of aid programs and advice on how and when to apply. It also provides a link to free software for completing an electronic version of the Education Dept.'s Free Application for Federal Student Aid.

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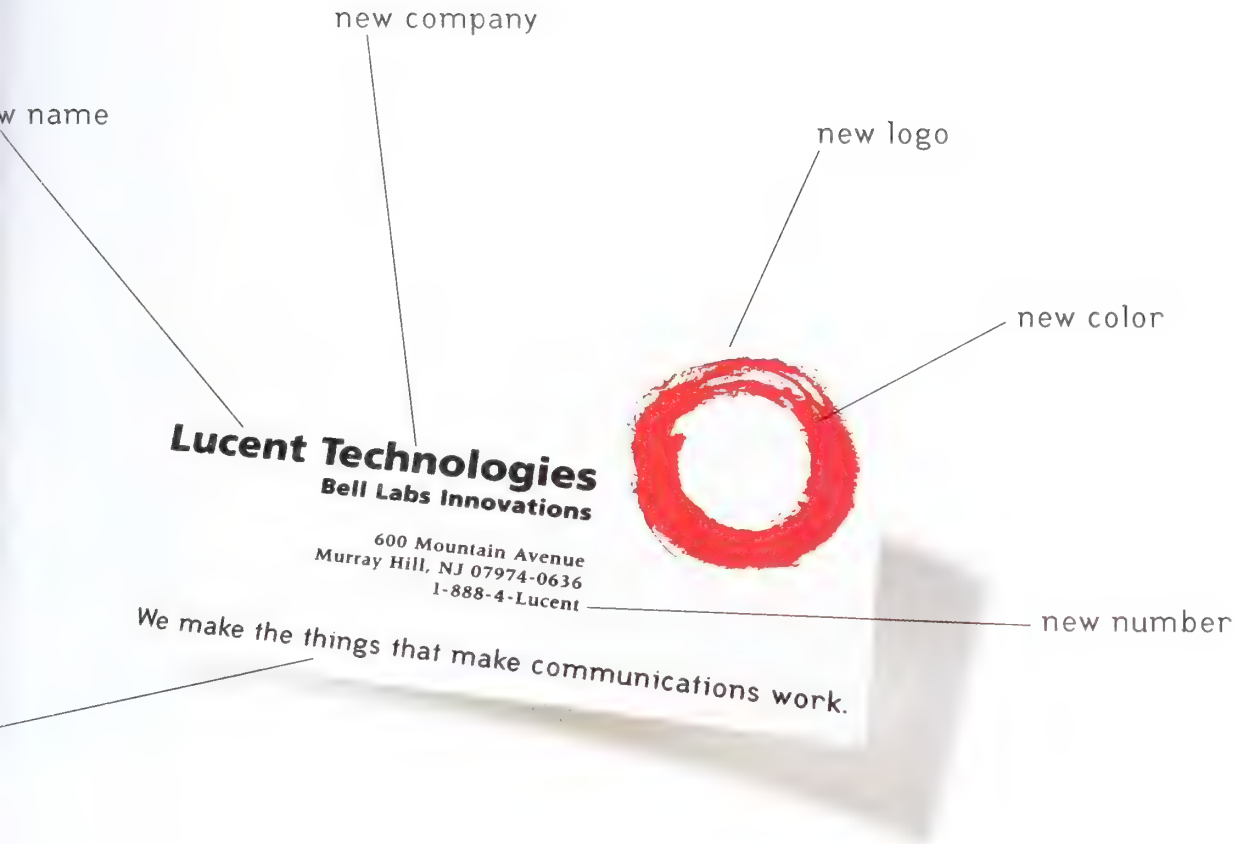
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BY PAUL CRAIG ROBERTS

MESSAGE TO THE GOP: NO GUTS, NO GLORY IN NOVEMBER

STAND UP: Blaming Democrats won't work. Republicans have to stop posturing and start fixing the tax and Social Security systems

By the time the November elections roll around, Republicans may have spent two years proving that they don't make a difference. The hope has dissipated that Republicans would put the power of Congress to good effect. Meanwhile, President Clinton does well in polls despite Whitewatergate, Travelgate, and the related scandals that have forced resignations from the top ranks of the Justice Dept., Treasury Dept., and the White House's Office of the General Counsel.

Republicans still have time to come up with an aggressive economic policy that would inspire voters, but indications are that they will instead emphasize their political impotence by posturing. Their game plan is to stress all the things they would have accomplished (a balanced budget, welfare reform, etc.) if only Bill Clinton had let them.

This will strike voters as a poor pitch for the Presidency. After all, Democratic Congresses, especially when blessed with scandal-ridden Republican Presidents, don't experience any difficulties with their liberal agendas.

TOO TIMID. The Republicans' dilemma is that they lack the guts to make a difference. Their party's personalities are cautious and nonconfrontational. Aggressive policies are not to their liking, because they evoke strong attacks and must be stoutly defended—and stout defenses get in the way of deals. This passive stance reassures people who are content with the status quo, but those who are fed up with Washington see only a lack of conviction—perhaps the worst political corruption of all.

Republicans have always thought they could win elections by pointing their fingers at Democrats. In 1974, they were ecstatic over the Congressional Budget Act, because they believed the electorate would hold accountable any Democrats who voted for deficits. In the 1980s, Republicans supported every tax increase in the 1980s so they could demonstrate their good-faith efforts to balance the budget in contrast with Democrats' overspending.

But posturing—even over grand issues such as a tax limiting constitutional amendment (staged for Apr. 15)—doesn't win public confidence. Confidence is won with an agenda, forcefully articulated, that demonstrates leadership now—not with promises of changes in the distant future.

Republicans know what this agenda is, but they are afraid of it. It is a simple tax sy that rewards success and permits capita cumulation. It is a reformed or privatized cial Security system that gives people own nest eggs in place of tax-dependen tergenerational transfer payments.

STAGNANT WAGES. The competitive press that the U.S. faces from the rise of g capitalism mean that the time is ripe for agenda. But in the GOP, fear prevails leadership. Republicans are fearful of class-warfare rhetoric that would be thr at them, and they are scared of the Socia curity sacred cow.

Democrats sense this and are seizing opportunity to define the issues their Record profits are contrasted with stag wages and massive layoffs. So Clinton mands "an ethic of responsibility" from porate America, and House Minority Le Richard A. Gephardt (D-Mo.) wants "a manistic capitalism." To get it, he offers breaks to companies that qualify as soc responsible.

Republicans can scoff at the social e neering, but Democrats are playing the s chords that won Pat Buchanan 20% of Republican vote. Unless Republicans add people's fears of global competition wi program of their own, Democrats will trol the debate.

The Republicans' difficulty is compoun by two other factors. The media are aga them, and their staffs cannot be aggres except at great personal risk. Democr staff members can fight for causes, bec they have rich liberal foundations and versities as career safety nets. Republ staff members have no such support syst Their careers depend on doing small fav not on making waves.

In the end, the electorate is going to fo the party that can lead with conviction—e if it is in the wrong direction. The fee ness of Republican leadership, combined the ineptitude of Democratic policies, is source of Perot and Buchanan third-p stirrings.

A vast majority of Americans underst that the fairest society is the one that vides the most opportunities for peopl succeed—rather than opportunities to liv failures off the ones who do. If Republic could find the confidence to stand up for cess, the future would be theirs.

is John M. Olin
w of the Institute for Political
nomy and Distinguished Fellow of
Cato Institute in Washington, D.C.

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BY GENE KORETZ

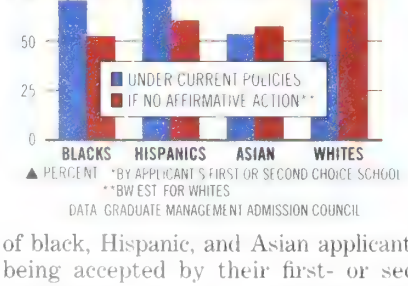
LESS DIVERSITY AT B-SCHOOLS?

Minority admissions may be at risk

If current legal and political trends persist, America's universities face an uphill battle in fostering racial and ethnic diversity among their students. Indeed, many colleges have started to review admissions policies in light of the growing debate over affirmative action.

One concerned group is graduate business schools, which can give a big leg up to minorities seeking to enter the nation's management ranks. A recent study sponsored by the Graduate Management Admission Council looks at the preferential consideration given by B-schools to minority applicants.

By tracking a sample of applicants from 1989 through 1993, the study throws light on two issues: the chances of black, Hispanic, and Asian applicants being accepted by their first- or second-choice schools, compared with whites, and how they might fare if applications were evaluated without reference to racial background.



The researchers found that 70% to 78% of applications to first- or second-choice schools by whites, blacks and Hispanics are accepted. Although Asians do as well as whites on the Graduate Management Admissions Test and both groups do significantly better than Hispanics and blacks, fewer Asians are accepted—in part because they tend to apply to better, more selective schools.

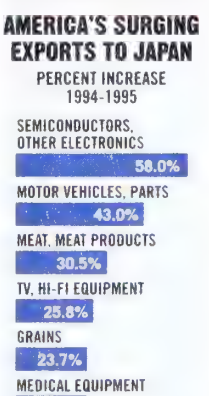
How much impact does affirmative action have on admissions? Weighing such factors as GMAT scores, undergraduate grades, age, sex, and work experience, the study finds that the acceptance rate for blacks and Hispanics would have dropped from 70% and 78%, respectively, to just 52% and 60%—if applications had been evaluated without considering minority status. By contrast, Asians would have done a bit better. The study doesn't estimate the impact on whites, but BUSINESS WEEK figures their acceptance rate would have been a percentage point or two higher in the absence of affirmative action.

While the data show that black and Hispanic B-school applicants are more likely to be accepted than whites or Asians with similar qualifications, it's important to note that these groups are relatively small. Of 84,600 MBAs awarded in the 1991-92 school year, just 4.7% went to blacks, and 2.3% to Hispanics. Since preferential admission policies are concentrated among the more selective business schools, which also offer more scholarships, the numbers of minority business students could shrink appreciably if affirmative action policies were entirely ended.

ONE TOUGH TRADE REP

Kantor helped boost U.S. exports

Although skeptics may scoff at Commerce Secretary appointee Mickey Kantor's achievements as U.S. Trade Representative, economist Rosanne M. Cahn of CS First Boston points out that pressure on Japan has paid off for American exporters. Shipments to Japan surged by 20% last year—even with a stagnant Japanese economy—and big gains were racked up by items that U.S. negotiators stressed in past talks: motor vehicles and parts, meat and rice, semiconductors, computers, and medical equipment (chart).



Kantor's complaints about U.S. losses due to foreign rivals' use of bribes to obtain business overseas (BW—Apr. 15) appear to have paid off, too. The Organization for Economic Cooperation & Development has just announced that it will take steps to limit business write-offs of such expenses.

WHAT 'SHORTAGE' REALLY MEANS

The word often presages inflatio

Next time "shortage" appears in y paper, pay attention. It may you something about future inflatior

University of Chicago econom Owen Lamont reports that the f quency of "shortage" on the front pa of *The New York Times* and *The W Street Journal* from 1969 to 1994 stro ly foreshadowed reports on consur and producer price inflation. Furth more, such usage provided informat beyond that contained in commod prices, money supply, interest rates, a other commonly cited inflation signa

Why do "shortage" citations help p dict inflation readings in the mon ahead? Lamont notes that the very c cept of a shortage suggests an imb ance between supply and demand wh requires higher prices to be resolve

SHEEPSKINS TO SHOW OFF

Men from good colleges earn mo

Does it pay for college students a their families to make the huge vestment usually required to atten high-quality school? A new study economists Kermit Daniel, Dan Bla and Jeffrey Smith suggests it does.

Following the careers of several h dred male college grads, who were 22 29 in 1987, the economists analyzed th wages in the late 1980s in light of h good a college they had attended. T study's college-quality measure w based on spending per student, fac ty-student ratio, applicant-rejection ra and first-year students' SAT scores a high-school class standing.

The researchers found a strong c relation between men's earnings and quality of their college. Men from c leges in the top quintile earned ab 20% more than comparable men fr bottom-quintile colleges. And attend public colleges of high quality was productive wage-wise as going to a p vate institution of similar quality.

Two other findings of interest— light of the debate over affirmative tion: Black men gain more than wh men from a high-quality college. A attending a college with a racially verse student body appears to incre the later earnings of all graduates.

The Birth of a New Company.

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"Microsoft has just introduced the award-winning Microsoft Internet Explorer for the Macintosh, and is hard at work on great new versions of Microsoft Office, Microsoft FrontPage and many other titles. We're also committed to continued interoperability between Windows NT Server and the Macintosh. Since 1984, Microsoft has been committed to its Macintosh customers and the Macintosh platform. We look forward to introducing a significant number of new and improved products as we continue our second decade on the Mac."

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"Macintosh contributed to the first publishing revolution. This summer, when we introduce our Internet and multimedia design tool, QuarkImmedia, users can capitalize on the next revolution: interactive publishing. Macintosh is one of many important tools for our customers and Quark will continue to develop software for them."

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"Corel is excited about the business prospects we see for supporting the Macintosh platform. Over the next few months, we will be releasing CorelDRAW for the Mac, as well as continuing to enhance OfficeSuite and our many other products for the Mac. We think the Mac will play a major role in our future."

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Brøderbund Software remains strongly committed to the Macintosh platform. Over the years, we have delivered many exciting and market-leading products for Macintosh, and it is an important component of our strategy today. The Macintosh provides a quality experience that matches up well with the quality we always strive to deliver to our customers."

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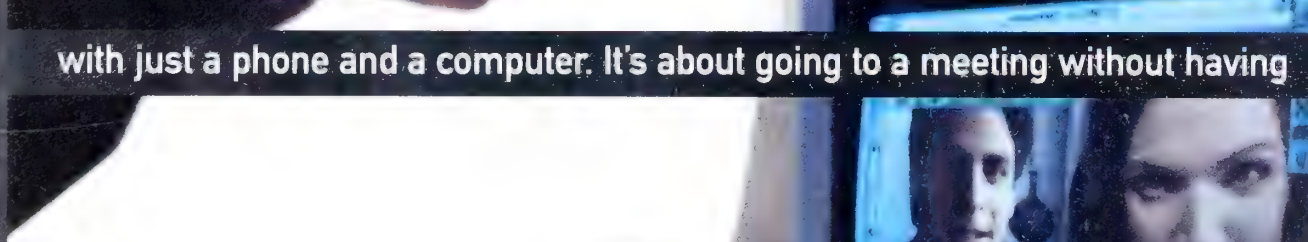

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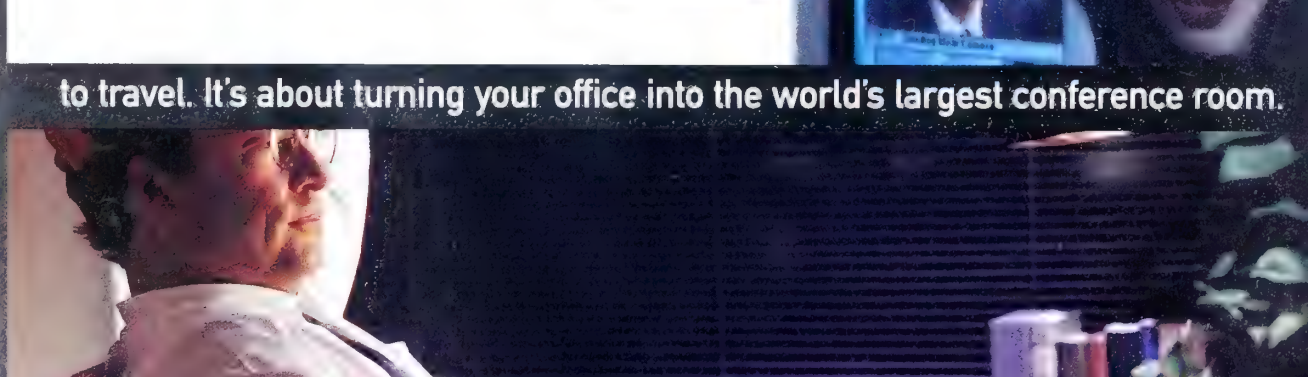

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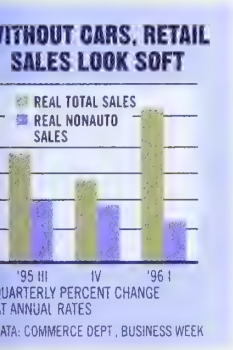
JAMES C. COOPER & KATHLEEN MADIGAN

ASTER INFLATION? ORGET ABOUT IT

U.S. ECONOMY

In the past year, grain prices have soared 50%—a perfect use to jack up cereal prices, right? Well, on Apr. 15, lip Morris Cos.'s Kraft Foods Inc. said it was slash- the cost of a box of Post Raisin Bran and the rest ts cereals by 20%. Now, are you still worried that ation is about to heat up?

'he example brings together all the long-term trends competition, pricing, and consumer behavior that rently are working to hold inflation down. But more ortant for the near term, the economy is just not wing fast enough to generate the pressures neces- y to sustain a speedup in inflation.



Make no mistake, economic growth in 1996 is starting to show signs of accelerating a notch after shuffling along last year at just over 1%. However, that pickup appears to be in the neighborhood of 2%, not 3%. The difference is bigger than it looks. Growth of 3% or better would fuel inflation fears much as it did in 1994 and force the Federal Reserve nike interest rates, while 2% growth would not.

'he March data do a lot more to ease fears of over- rapid growth than stoke them (charts): Retail sales ely rose. Housing starts dropped. Industrial pro- tion fell, because of the strike at General Motors rp. But even excluding the effects of the strike, fac- y output barely advanced. And except for a tempo- y jump in the cost of energy, both wholesale and re- price increases remain benign.

E AREA THAT LOOKS A LITTLE FIRMER is con- ner spending. Although March retail sales grew only %, February buying was revised to show a jump of %, instead of the originally reported 0.9%. January re receipts were flat. For the quarter, after adjusting inflation, retail sales are up at an annual rate of %, the strongest quarter in more than a year.

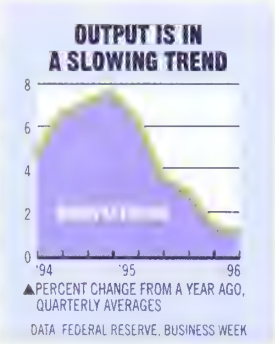
3ut that gain appears to exaggerate the quarter's ength. Excluding car buying, sales for the remaining ee-fourths of retail goods rose at only a 1.4% annu- rate, the slowest pace in three years.

Vhat's more, the implied surge in car sales is at ls with data on unit sales of autos and trucks. The t data show that vehicle sales averaged a 15.2 million ual rate in the first quarter—a strong showing, but about the same as the fourth quarter's 15.1 million. The Commerce Dept. uses unit sales to score gross domestic product.

Taking all this into account, real consumer spending on both goods and services, as it goes into the GDP tally, appears to have risen about 3% in the first quarter, up substantially from the fourth quarter's 1.2% pace. For now, the pickup suggests that consumers are still a crucial force in the expansion. But the recent runup in long-term interest rates, rising debt burdens, and continued job worries will prevent a spending spree.

Long-term rates may already be putting a crimp in housing starts. They fell 3.6% in March, to an annual rate of 1.45 million, with declines in both the single-family and multiunit sectors. The latest survey of builders by the National Association of Home Builders showed that market conditions remained strong in April. But that may stem from buyers making a last run before mortgage rates climb even higher.

STRONGER CONSUMER SPENDING also implies that businesses have been successful at whittling down their excessive inventories, which have been a drag on new orders and production in recent months. Inventories at manufacturers, wholesalers, and retailers increased just 0.2% in the three months that ended in February. That's a good deal slower than the 1.2% increase in the three months before that and the 1.2% growth in business sales.



Better inventory control enhances the outlook for industrial production in coming months—but here, too, don't look for a boom. Indeed, the industrial sector was anything but robust in March. Production fell 0.5%, while factory output dropped 0.8%. The General Motors strike played a part in cutting output. Excluding motor vehicles, manufacturing production rose, but only 0.2%.

The strike, along with a continued solid level of car buying, helped Detroit pare down its stockpile of unsold cars. Now, auto makers are boosting their second-quarter production schedules, and that should give overall output a lift in coming months.

Even though March was dismal, industrial production managed to grow at a solid 2.7% annual rate for the first quarter compared with fourth-quarter output,

ERIC HOFFMANN/BW

which was depressed by the strike at Boeing Co. It is likely to post that kind of moderate growth this quarter as well.

But factory output is up only 1.1% from a year ago. Excluding autos, it has risen 2%. Information processing equipment remains strong, but makers of consumer goods have become victims of soft retail buying. Their output is barely up from last year.

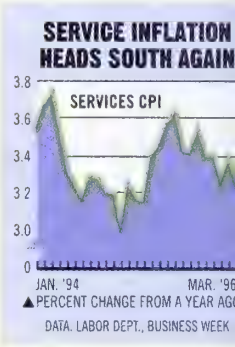
AS THESE TRENDS SUGGEST, the pressure to drum up market share is not unique to the cereal industry. Slower demand growth over the past year has dampened production of many goods and loosened up what were once intensifying capacity constraints. These conditions hardly describe an environment in which price pressures can build.

After hitting a cycle peak of 85.1% in January, 1995, the average operating rate for all industry slipped to only 82.5% in March. The average rate for the first quarter was below that for the fourth quarter, and well below the level associated with production bottlenecks and supply shortages that usually set the climate for price markups.

Indeed, the March price indexes looked as tame as ever. The producer price index for finished goods jumped 0.5%, but almost all of that gain reflected a 2.4% surge in energy costs, the result of higher crude prices and the unusually cold winter that left gasoline stocks low as refiners concentrated on heating oil. C prices continued to rise in April, and the overall pr indexes will show the effects this spring.

Excluding the volatile energy and food sectors, t core PPI rose a scant 0.1%, and there were no pr pressures in the pipeline. The core index for intern diate goods fell for the sixth consecutive month, and t core index for crude goods has declined in eight the past nine months. Growth in the consumer price dex was mild as well. The March CPI rose 0.4%, a pushed up by energy, but the core index was up 0.3

One especially encouraging trend in the CPI is falling service inflation (chart). Service prices make up 57% of the index. Annual service inflation has fallen to 3.2% from 3.6% last summer. The trend suggests that even service industries are increasingly competitive, making price hikes difficult.

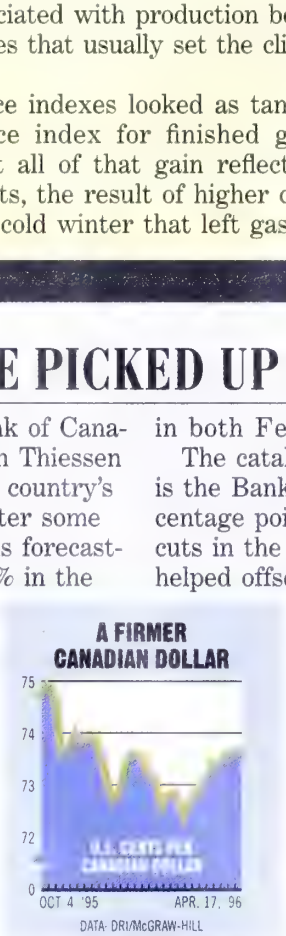


So whether it's bran flakes or haircuts, the old "cost-plus-markup" pricing behav has fallen victim to new competitive forces and to o right consumer resistance. And an economy that's gro ing only modestly will only assure that those forces main in place.

CANADA

THINGS SURE PICKED UP QUICK

A few weeks ago, Bank of Canada Governor Gordon Thiessen sounded glum about his country's 1996 prospects. Now, after some recent upbeat data, he is forecasting growth of 2% to 2½% in the first half, picking up to 3% or better in the second half. Private analysts generally are more cautious, but many are coming around to Thiessen's way of thinking.



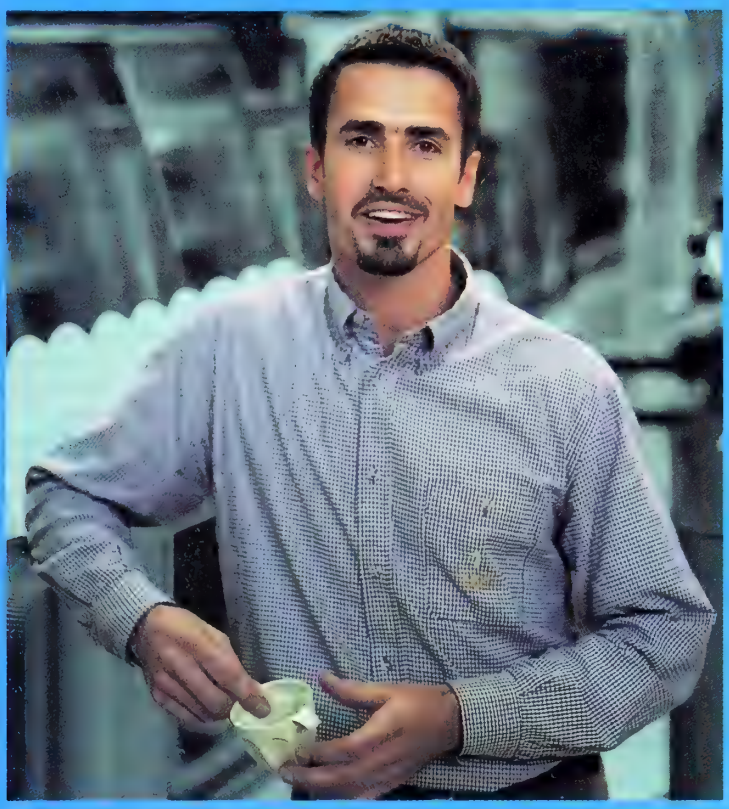
After a near recession, Canada appears to be rebounding sooner and stronger than expected. Job growth picked up sharply last quarter, despite [illegible]h's strike-related weakness. In February, department-store [illegible] and car buying looked [illegible]rmer. And housing starts surged in both February and March.

The catalyst for better growth is the Bank of Canada's three percentage points of interest-rate cuts in the past year, which helped offset the drag from budget-slashing. Long-term rates have fallen as well. As a result, improving demand is helping to clear out excess inventories, which curbed manufacturing last year. All that, plus better growth in the U.S., brightens the production outlook.

The real bonus in the country's outlook is the recent strengthening in the Canadian dollar, despite the steep interest-rate cuts that have pushed short-term rates below those in the U.S. Improving growth leads a long list of factors buoying the currency: Inflation, a 1.3% in February, is not expected to rise much above 2% this year. The current-account deficit is shrinking. And the Quebec sovereignty issue seems to be on hold, especially now that new Quebec Premier Lucien Bouchard is giving fiscal and economic concerns a higher priority.

The biggest drag on the outloo is Ottawa's commitment to rein in its deficit, coupled with moves toward fiscal restraint in the two largest provinces, Ontario and Quebec. The federal government plans to cut spending by 6.9% during the next two years, shrinking its deficit to 2% of gross domestic product by 1998. If the dollar strengthens further, BOC officials have hinted that another rate cut is not out of the questior

Good engineering and good design should go hand in hand.



Let's make things better.

Elmar Zankl, Operative, Plastic-technic Domestic Appliances Plant. Klagenfurt, Austria.

It's not enough for a kitchen appliance to be well built. It should also be well designed.

My name is Elmar Zankl, an operative in the Domestic Appliances Plant, Klagenfurt.

Working with designers from Alessi, we developed a new synthetic material to meet the demands of modern manufacturing.

ther with continuous improvements in our product quality we can guarantee customers the perfect synthesis of design and function.

ances produced on our Alessi line are already amongst the most ng in the world. Our design now is to surpass them.

PHILIPS

PHILIPS

THE DOLLAR

THE STRONG DOLLAR GIVETH . . .

What the rally means to profits–and the economy

In the past, when Edward E. Yardeni, chief economist at Deutsche Morgan Grenfell/C. J. Lawrence Inc., went to Europe, he endured endless lectures from European financiers about how the U. S. was debasing its currency because of chronic fiscal and trade deficits. No more. On Yardeni's latest swing through the Continent, Europeans were cooing about the greenback. "I haven't seen greater respect for the dollar among European investors at any time in the recent past," he marvels.

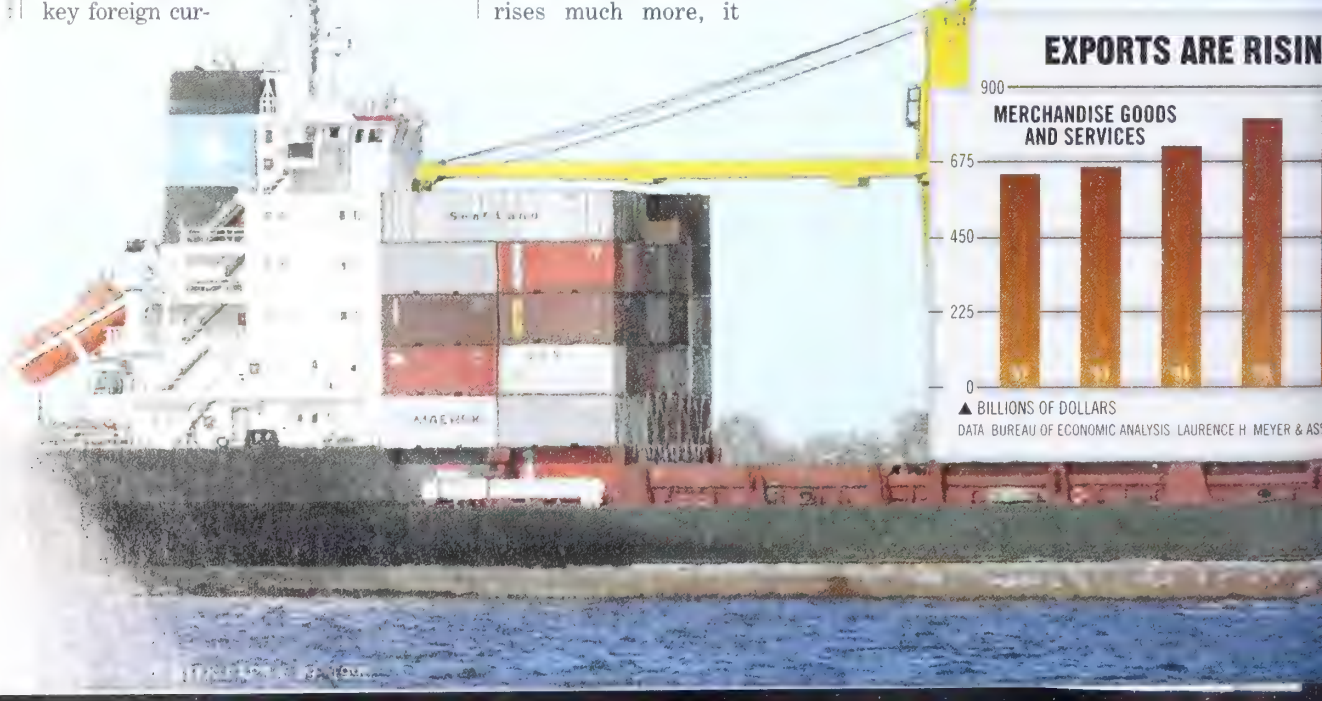
The dollar may not quite be king again. But it's regaining much of its luster with foreign investors, who have helped fuel a stunning dollar rally during the past 12 months. Just one year after the greenback dipped to post-World War II lows against key foreign currencies, it has soared 35% above its 1995 nadir against the yen, to over 108, the highest level since 1994. And it has risen nearly 9% against the German mark.

The dollar's gain has not yet stalled the U. S. export machine, which is projected to rise 8% this year. But the greenback's rebound will clip corporate profits in the second quarter, and economists warn that a further rise could undermine export growth.

The problems are already starting for some companies. On Apr. 17, IBM Chief Financial Officer G. Richard Thoman warned analysts that unfavorable currency shifts could hurt second-quarter earnings by 25¢ a share, or roughly 8% of analysts' expectations—and investors wiped out 8.9% of the stock's market value, driving shares down 10¼, to 105¼.

Auto makers feel equally exposed. They worry that if the dollar rises much more, it could short-circuit their recent succes exporting to Japan, where sales h risen 33% during the past six mon To compete at above 110 yen, Chry Controller James D. Donlon III wa that Detroit would have to purch many more components in Japan. deed, Chrysler Corp. may resume b ing power trains from Japanese sup ers if the dollar doesn't level off. would have a bearing on where source some major power-train com nents in 2000," Donlon says.

In all, the dollar's runup will cut ond-quarter earnings for the 500 c panies in the Standard & Poor's in by four percentage points, leaving th with a meager 3% gain over the s period last year, says David G. S man, chief strategist for Salomon Br ers Inc. "When the dollar was in cline, it provided a tailwind to corpo earnings," says Shulman, who is m



rish on earnings than most forecast- "Now it's creating a headwind."

Even more worrisome is the long-n impact a stronger dollar will have U. S. global competitiveness. Japan- and German rivals that slashed costs n the dollar was in free fall can now even higher profits with the green- stronger. "Every 1-pfennig rise in dollar adds $20 million to our prof- boasts Mercedes-Benz CEO Helmut rner. Last year, Mercedes' sister space company began slashing its kforce and shifting production ad in hopes of lowering its dollar- ed breakeven point to 1.35 marks—a it says it will achieve by 1997.

PER" PROFITS. Similar cost-cutting Japanese auto makers such as Toyota or Corp. has enabled them to earn fits on exports with the dollar as as 90 yen—giving them huge profit gins at the current exchange rate. panese manufacturers have lowered r breakeven point so much [that] e of them are going to be super- fitable," says Mazda Motor Corp. sident Yoshihiro Wada. Indeed, a d Motor Co. executive says the ker yen is enabling Toyota and Hon- to offer leases as low as $149 a th on the Toyota Camry and Honda ord. That's forcing Ford to boost its ntives on the Taurus.

Behind the dollar's revival is the U. S. nomy's steady growth while Ger- ny and Japan struggle to sustain bly recoveries. As a result, infla- -adjusted U. S. interest rates are ve those in many European and an countries, luring foreign investors back into dollar-denominated assets.

What's more, central bankers in Germany and Japan are promoting a stronger dollar to spur exports. "The Bundesbank is clearly talking down its currency," says Paul A. McCulley, chief economist at UBS Securities. For their part, Japanese central bankers spent a record $17 billion on dollar purchases in February to drive down the yen, and Finance Ministry officials are said to have quietly threatened to audit the taxes of any Japanese multinational caught selling dollars—though officials deny the charge.

Japan's overt weak-yen policy likely means further gains for the dollar. Andrew N. R. Fleming, chief investment officer for London-based Nations Gartmore Investment Management, predicts the dollar will surge to 120 yen—the highest since 1993—as the Japanese economy revives. "The yen is still significantly overvalued," says Fleming. He figures the dollar will climb to 1.6 marks.

The dollar's upward march is starting to worry Clinton Administration trade officials, who fear a muscular greenback will eventually crimp exports. But the Administration is reluctant to try holding back the currency's climb. After all, Treasury Secretary Robert E. Rubin spent all of 1995 insisting that the White House favored a strong dollar and was not trying to debase the currency to narrow the U. S. trade deficit. At last, the markets seem to believe him.

The White House is worried about exports, but it can't risk a currency crisis before the election

Besides, with foreign investors gobbling up the equivalent of 72% of all new Treasury securities last year, the Clintonites aren't eager to provoke a currency crisis. With interest rates already up sharply on inflation fears, the Clintonites would like to prevent any further sell-off in the bond market that could send interest rates soaring just before the elections. "I think they're getting nervous already," says David D. Hale, an economist with Zurich Kemper Investments Inc. "But the Administration needs Tokyo to keep buying Treasuries."

Not every company is hurting. Many capital-goods makers are currently benefiting from the dollar's rise because big-ticket items such as Boeing Co.'s aircraft and General Electric Co.'s jet engines are bought and sold in dollars worldwide. And some companies that lock in dollar prices on their goods are actually enjoying a pickup in profits. Others manage to hedge their exposure to currency fluctuations. Still, capital-goods makers will eventually be vulnerable as well.

Such are the mixed blessings of a revitalized dollar. A rising currency may be a sign of respect for U. S. economic performance. But for companies that have become first-class exporters thanks to a cheap dollar, that admiration could carry a steep price.

By Dean Foust in Washington, with William Glasgall in New York, John Templeman in Bonn, Bill Vlasic in Detroit, and bureau reports

CORPORATE PROFITS

GOOD NEWS, IF YOU LOOK HARD ENOUGH

The quarter's earnings are modest but better than expected

Slow but steady. That's how corporate profits are shaping up–if you take a look behind the raw numbers in BUSINESS WEEK's flash report of first-quarter results at 83 companies. Earnings were flat on an 8% increase in sales. Profits, however, are being dragged down by some big declines–notably at Ford Motor Co. and Chase Manhattan Corp. There were some upside surprises, Chrysler Corp. and Philip Morris Cos. among them. Earnings for the quarter overall, meanwhile, are beating Wall Street's expectations by 4%. Worries for the second quarter: rising rates and a surging dollar.

—Frederick F. Jespersen

	CURRENT QTR. SALES (MILLIONS)
INDUSTRIALS	141,824.2
ABBOTT LABORATORIES	2,672.2
ALCOA	3,149.6
ALUMAX	802.6
BOISE CASCADE	1,227.6
CATERPILLAR	3,844.0
CHAMPION INTERNATIONAL	1,533.2
CHRYSLER	15,000.0
COCA-COLA	4,194.0
COCA-COLA ENTERPRISES	1,600.0
COLGATE-PALMOLIVE	2,053.7
CONAGRA	5,771.8
CORNING	1,361.4
CPC INTERNATIONAL	2,409.5
CUMMINS ENGINE	1,316.0
EASTMAN KODAK	3,388.0
FMC	1,144.3
FORD MOTOR	36,261.0
GEORGIA-PACIFIC	3,049.0
GOODRICH (B.F.)	604.5
INLAND STEEL INDUSTRIES	1,180.9
INTERNATIONAL PAPER	4,800.0
JOHNSON & JOHNSON	5,334.0
LILLY (ELI)	1,783.3
LTV	993.1
MATTEL	585.9
MERCK	4,530.4
OWENS CORNING	849.0
PFIZER	2,682.0
PHELPS DODGE	1,004.7
PHILIP MORRIS	13,734.0
REYNOLDS METALS	1,675.0
ROCKWELL INTERNATIONAL†	3,422.0
RUBBERMAID	533.3
TRW	2,670.0
WEYERHAEUSER	2,605.3
WHIRLPOOL	2,059.0
SERVICES	46,540.7
ALLSTATE	5,903.0
AMR	4,308.0
BANC ONE	NA
BANKERS TRUST	NA
CALIBER SYSTEM	582.1
CHASE MANHATTAN	NA
CITICORP	NA
DOW JONES	584.8
ENRON	3,100.0

CORPORATE PROFITS

APPLE: TICK, TOCK. TICK, TOCK

Can Amelio's master plan stop the cash drain in time?

When the bad news came, it was even worse than anticipated. On Apr. 17, Apple Computer Inc. announced a loss close to what had been forecast: A $740 million deficit for the quarter that ended Mar. 29. But it was the rest of the announcement that really stung: Quarterly revenues plunged by 18%, to $2.2 billion, as Apple's U.S. Macintosh computer sales hit the skids. Gilbert F. Amelio said he would ax a further 1,500 employees, raising total layoffs under way to 2,800. Worst of all, the company's cash on hand plunged from $1.1 billion at yearend to just $592 million at quarter's end.

Deteriorating finances raise doubts as to whether Amelio can accomplish a turnaround. Full details will be unveiled in May, but Amelio says that he hopes to focus the company on catering to Internet users. Other insiders say he will try to turn the Mac into the B of computers, beefing up features technology aimed at publishers, gra ic artists, and other loyal Mac buy Meanwhile, he's hoping to cede sc low-margin and emerging overs markets to partners, who will lice Apple Mac's operating system.

SURVIVAL QUESTION. But time is r ning short. Amelio says Apple will profitable within a year. With gr margins at just 9%, down from 2 in last year's March quarter, a with cash reserves plummeting, question is whether Apple will ha enough money to fund Amelio's pl "They got killed," says Dean Wit

% CHG.	EST. EPS (2/15)	REPORTED EPS	DIFF.
–4	0.85	0.86	+0.01
+15	0.59	0.61	+0.02
–8	0.98	1.01	+0.03
–14	0.65	1.73	+1.08
–55	0.73	0.30	–0.43
–1	1.54	1.53	–0.01
–36	1.51	0.88	–0.63
+103	2.27	2.61	+0.34
+12	0.57	0.57	—
+133	–0.01	0.04	+0.05
–8	0.95	0.95	—
+8	0.56	0.55	–0.01
–10	0.26	0.31	+0.05
+10	0.81	0.82	+0.01
–27	1.08	1.21	+0.13
+5	0.86	0.80	–0.06
+5	1.73	1.45	–0.28
–58	0.33	0.53	+0.20
–78	1.40	0.55	–0.85
+13	0.43	0.37	–0.08
–61	0.44	0.31	–0.13
–60	0.91	0.46*	–0.45
+21	1.17	1.19	+0.02
+4	0.73	0.71	–0.02
–74	0.22	0.12	–0.10
+11	0.14	0.11	–0.03
+14	0.70	0.70	—
+18	0.72	0.73	+0.01
+24	0.79	0.81	+0.02
–17	2.09	2.26	+0.17
+15	1.87	1.89	+0.02
–79	1.01	0.48*	–0.53
+18	0.96	0.96	—
–23	0.31	0.27	–0.04
+2	1.77	1.73	–0.04
–31	1.03	0.72	–0.31
–49	0.55	0.50	–0.05
+9	0.94	1.04	+0.10
–22	1.00	0.94	–0.06
+324	0.90	1.84	+0.94
+14	0.86	0.77	–0.09
NM	1.43	1.51	+0.08
–55	0.33	0.24	–0.09
NM	1.60	1.98*	+0.38
+10	1.71	1.75	+0.04
–19	0.50	0.39	–0.11
+9	0.82	0.86	+0.04

	CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (2/15)	REPORTED EPS	DIFF.
FANNIE MAE	6,064.8	+15	674.9	**+19**	0.59	0.61	+0.02
FEDERAL EXPRESS††	2,535.5	+9	27.2	**–57**	0.62	0.47	–0.15
FIRST CHICAGO NBD	NA	NA	340.0	**+1**	1.00	1.04	+0.04
MARRIOTT INTERNATIONAL	2,163.0	+7	63.0	**+21**	0.46	0.47	+0.01
McGRAW-HILL	583.9	+3	16.2	**+16**	0.16	0.16	—
MERRILL LYNCH	6,019.0	+16	409.0	**+79**	1.48	2.03	+0.55
MORGAN (J.P.)	NA	NA	439.0	**+72**	1.70	2.13	+0.43
NATIONSBANK	NA	NA	513.0	**+16**	1.87	1.67	–0.20
NEW YORK TIMES	622.5	+9	32.7	**+20**	0.32	0.33	+0.01
OFFICE DEPOT	1,633.0	+21	33.5	**+3**	0.24	0.21	–0.03
PAINEWEBBER GROUP	1,430.0	+16	100.5	**+193**	0.60	0.92	+0.32
SAFEWAY	3,882.7	+7	96.4	**+55**	0.32	0.40	+0.08
SCHWAB (CHARLES)	545.8	+45	46.9	**+22**	0.26	0.26	—
TIME WARNER	2,068.0	+14	–93.0	**NM**	–0.24	–0.32	–0.08
TRAVELERS GROUP	4,514.6	+5	520.2	**+53**	1.26	1.55	+0.29
WELLS FARGO	NA	NA	264.0	**+13**	5.37	5.39	+0.02
TECHNOLOGY	40,286.6	+12	2,785.8	**–16**	0.98	0.94	–0.04
ADVANCED MICRO DEVICES	566.5	+12	25.3	**–70**	0.34	0.18	–0.16
AUTOMATIC DATA PROCESSING††	1,031.9	+29	143.9	**+15**	0.50	0.49	–0.01
BAY NETWORKS††	521.7	+48	29.2	**–25**	0.39	0.15	–0.24
GENENTECH	242.9	+2	38.2	**–12**	0.34	0.31	–0.03
HONEYWELL	1,619.5	+10	65.1	**+19**	0.50	0.51	+0.01
IBM	16,559.0	+5	774.0	**–40**	2.43	2.48*	+0.05
INTEL	4,644.0	+31	894.0	**+1**	0.98	1.02	+0.04
MOTOROLA	6,955.0	+16	384.0	**+3**	0.61	0.63	+0.02
POLAROID	461.1	+13	–60.7	**NM**	0.08	–1.33	–1.41
RAYTHEON	2,769.0	+16	186.5	**+7**	0.79	0.78	–0.01
SUN MICROSYSTEMS††	1,840.0	+22	143.3	**+33**	0.70	0.73	+0.03
TEXAS INSTRUMENTS	3,076.0	+7	163.0	**–29**	1.23	0.84	–0.39
UTILITIES & TELECOM	33,558.0	+8	3,889.0	**+11**	0.77	0.83	+0.06
AMERITECH	3,567.4	+13	478.3	**–17**	0.83	0.86	+0.03
AT&T	12,956.0	+5	1,443.0	**+14**	0.87	0.90	+0.03
COLUMBIA GAS SYSTEM	1,203.0	+17	151.3	**+17**	2.20	2.99	+0.79
GTE	4,951.0	+6	616.0	**+13**	0.62	0.63	+0.01
KANSAS CITY POWER & LIGHT	206.6	+4	24.5	**+7**	NA	0.38	NA
PUBLIC SERVICE ENT.	1,865.8	+11	194.1	**–9**	0.90	0.79	–0.11
SBC COMMUNICATIONS	3,196.7	+10	464.0	**+17**	0.73	0.76	+0.03
SPRINT	3,371.9	+10	312.2	**+39**	0.77	0.78	+0.01
UNICOM	1,684.0	+7	160.8	**+52**	0.46	0.64	+0.18
WESTERN RESOURCES	555.6	+25	44.8	**+8**	0.60	0.66	+0.06

† Second-quarter results †† Third-quarter results NM = not meaningful NA = not available *EPS adjusted for special items

DATA. STANDARD & POOR'S COMPUSTAT, A DIVISION OF THE McGRAW-HILL COMPANIES. EARNINGS ESTIMATE DATA PROVIDED BY I/B/E/S INC., NEW YORK, NY. I/B/E/S IS A REGISTERED TRADEMARK OF I/B/E/S INC.

rnolds analyst Eugene Glazer. rouble was brewing with Amelio's even before the latest financial v. Apple's crucial next-generation software, dubbed land, is behind edule. And delivery d be slowed even e if turmoil devel- in the wake of the . 15 resignation of id C. Nagel, head of earch and develop- t, who is leaving to the top job at AT&T s. For now, Amelio aking over as R&D head. Amelio now says Copland will be delayed into 1997 so it can be adapted to the Internet.

The licensing plan is not going any better. With sales plunging, many would-be licensees give Mac cloning a thumbs-down. Dell Computer CEO Michael S. Dell says he continues to nix the idea. Acer America President Ronald Chwang is more polite: "We probably will listen to their pitch . . . but I don't know how viable [a Mac clone] is today." IBM is expected soon to announce a licensing deal. But Big Blue only plans to resell the software to other would-be cloners.

Still, Microsoft Chairman William H. Gates III argues that it's too early yet to judge Amelio's progress. "I think Gil's very impressive," says Gates, who met recently with Amelio in Redmond, Wash. "He deserves a honeymoon . . . a period of time where he's allowed to assess things and come up with a strategy." Maybe. But the honeymoon has probably just ended.

By Peter Burrows in Cupertino, Calif., with Kathy Rebello and bureau reports

COMMODITIES

BIG OIL HITS A GUSHER—AT THE PUMP

With gas prices rising, the majors are snapping up stations

It used to be that selling gasoline down at the local service station was about as lucrative for oil companies as drilling dry holes. No more. These days, retail gasoline sales are generating high-octane profits for the oil industry.

The main reason: the demise of small, independent operators whose aggressive discounting kept oil companies' profits low. Squeezed by competition and the soaring costs of environmental regulations, the total number of U. S. service stations has continued to shrink, falling 13.7% since 1972, to about 195,000 last year. Meanwhile, average gross profits per gallon at the pump have climbed 28% since 1991 (chart). And many of the remaining independently owned service stations are "branding up"—selling well-known brands for higher prices and profits.

MARKETING MOVES. Oil companies increasingly see control of the pump as a way to rev up sputtering refining profits. And some lately have been spending a pretty penny to expand their retail holdings. In February, Tosco Corp. paid a hefty $900 million for Circle K Corp. and its 2,500 convenience stores, 1,900 of which sell gasoline. Earlier, the Stamford (Conn.) refiner plunked down $235 million for the right to use the BP brand on its gas sold to 500 Northeast gas stations and for a shuttered British Petroleum Co. refinery. And last November, Diamond Shamrock Inc.'s $260 million bid for Houston-based National Convenience Stores Inc. trumped a rival's offer to snare 600 Stop N Go convenience stores with gas pumps in the Southwest.

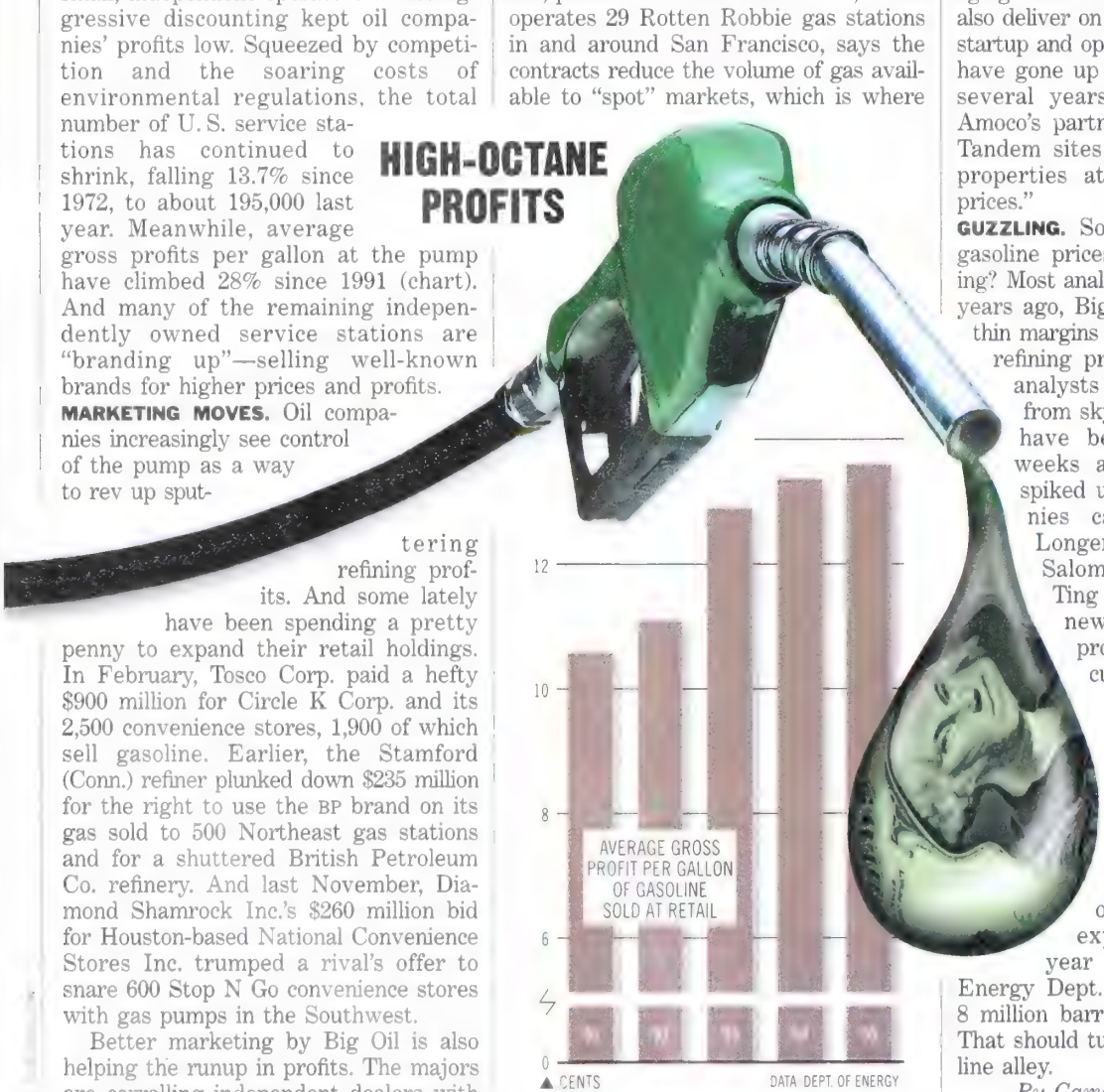
Better marketing by Big Oil is also helping the runup in profits. The majors are corralling independent dealers with long-term, 5- to 10-year supply contracts in exchange for cash for modernization or upgrades. In 1987, 44% of the dealer members of the Society of Independent Gasoline Marketers of America sold no-name gas exclusively. That fell to 23% at the start of last year. Thomas L. Robinson, president of Robinson Oil Co., which operates 29 Rotten Robbie gas stations in and around San Francisco, says the contracts reduce the volume of gas available to "spot" markets, which is where discounters generally buy gasoline their cut-price operations. "What we seeing is the majors competing throu these upgrade dollars," says Robins Offered money to finance new paint pumps, many independents that survi the industry consolidation have sig on with well-known brands.

Big Oil also is using nongasoline liances to boost profits. Companies s as Amoco, Exxon, and Texaco are c bining operations with fast-food out and dry cleaners. This year, Amoco C will share the property and maintena costs of 50 new gas stations with Donald's Corp., up from 13 last year. idea: Boost sales and profits by enco aging more frequent stops. Such allian also deliver on the bottom line by cutt startup and operating costs. "Land pr have gone up tremendously in the p several years," says Kathy Lath Amoco's partner-development mana Tandem sites "allow us to get bet properties at much more afforda prices."

GUZZLING. So is the recent runup gasoline prices evidence of price-go ing? Most analysts think not. Until a years ago, Big Oil subsidized the ul thin margins of gasoline marketing v refining profits. And market for analysts say, will prevent pro from skyrocketing. In fact, pro have been squeezed in rec weeks as crude-oil prices h spiked up faster than the com nies can raise pump pri Longer term, analysts such Salomon Brothers Inc.'s P Ting believe rising outlays new high-tech stations promotional campaigns cut deeply into profits.

Still, there are ha driving reasons why m gins should stay high some time: Travel is highway speed limits higher, and more g guzzling vehicles are the road. The best s of all: Gasoline demand expected to rise 2.2% t year and next—leading Energy Dept. to project record use 8 million barrels per day this sumn That should turbocharge profits in ga line alley.

By Gary McWilliams in Hous



Alliances with operations such as fast-food outlets and dry cleaners are boosting bottom lines

HEAVY DUTY: *Sears faces low morale and high costs*

RCRAFT

DMBAT-READY T McDONNELL

litary Ace Mike Sears ıst fix its commercial-jet biz

or the past five years, Michael M. Sears has been a top gun at McDonnell Douglas Corp.'s military , overseeing some of the company's t successful programs. As vice-president and general manager of the F/A-18 net strike fighter program and the er Hornet successor program, he ned a reputation as a spit-and-shine naround guy, an image that reaches n McDonnell's St. Louis headquars into the Pentagon. "Because of e's leadership, the F/A-18 program is ad of cost, schedule, and [flight] pernance," says U.S. Navy Captain Joe r, program manager for the Hornet. Now, Sears is marching into McDon-'s biggest battle—the one being ght by Douglas Aircraft Co., Mcnnell's troubled commercial-jet busis. During the past five years, Dous has seen its market share plunge n 22% to 9.8%, fueling industry specion that it may have shut down under ssure from Boeing and Airbus Indus-. Hoping to breathe v life into the ailing billion division, Mcnnell CEO Harry C. necipher on Apr. 8 ped the 48-year-old rs to replace 63-year-Douglas President bert H. Hood Jr. Sears takes off on a slick runway of low employee morale, bloated costs, and an aging product line. He acknowledges that Douglas needs to offer new aircraft models but says reining in expenses will be his first priority. "Our costs and price are not what they need to be," says Sears, an electrical engineering graduate of Purdue University. The company's manufacturing costs are 5% higher than industry leader Boeing's.

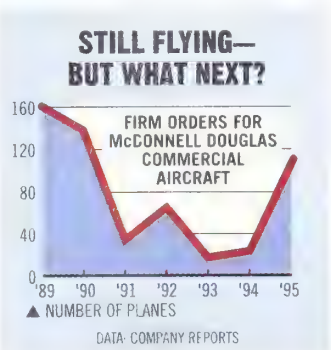
Shortly after Stonecipher took the helm in 1994, Sears won his attention with innovations such as forming cross-discipline production teams, establishing closer ties to suppliers, and beefing up controls. "My mandate from Harry is to take some of these things and make them work at Douglas," Sears says.

A fierce cost-cutter, Sears is known to search ruthlessly for savings. Wallace C. Solberg, a vice-president at Northrop Grumman Corp.'s military-systems division, which supplies the F-18 fuselage, says he recalls Sears pushing Northrop to improve its systems in 1993 after learning that Northrop was measuring "scheduled accomplishments vs. costs incurred" only monthly. "The upgrade would have taken us about two years, but because Mike really wanted to get it done fast, it took about eight months," Solberg says.

"THIN REED." Some analysts believe Douglas' turnaround rests on its ability to convince customers that it is a long-term player. The company found a partial lifeline last fall when ValuJet Airlines Inc. ordered 50 MD-95s, the company's proposed $22 million narrow-body twin-engine jet, with options for 50 more.

Still, the company has had trouble selling its flagship MD-11. Last year, Douglas delivered 18 of the $100 million planes but sold only 6 more—half its production rate—because of cancellations. This year, the company has sold a pair of MD-11s and signed long-term leases for two others. "Without market share, Douglas won't get enough orders to justify moving into other products," says Paul H. Nisbet, an industry analyst with JSA Research Inc. "The company is hanging on a thin reed." Now, it's up to Sears to strengthen it.

By Ron Stodghill II in Chicago



INVESTIGATIONS

DEAD ON ARRIVAL

Did mechanical trouble lead to a China Airlines tragedy?

The Federal Aviation Administration is investigating China Airlines following an incident Feb. 22 aboard a McDonnell Douglas MD-11 in which a U.S. citizen died during a flight from Taipei to San Francisco.

Chung Thi Allen, 58, of Fresno, Calif., succumbed to a heart attack about three hours into the 10-hour flight. One big question: Did mechanical problems contribute to her death? The coroner's report says Allen first had difficulty breathing about two hours into the flight, which was after the MD-11 suddenly plunged thousands of feet in a matter of seconds. Within an hour, she was dead. The pilot continued on, even though Allen died seven hours before the plane was to land in San Francisco. China Airlines confirms the death occurred but says it was halfway through the flight.

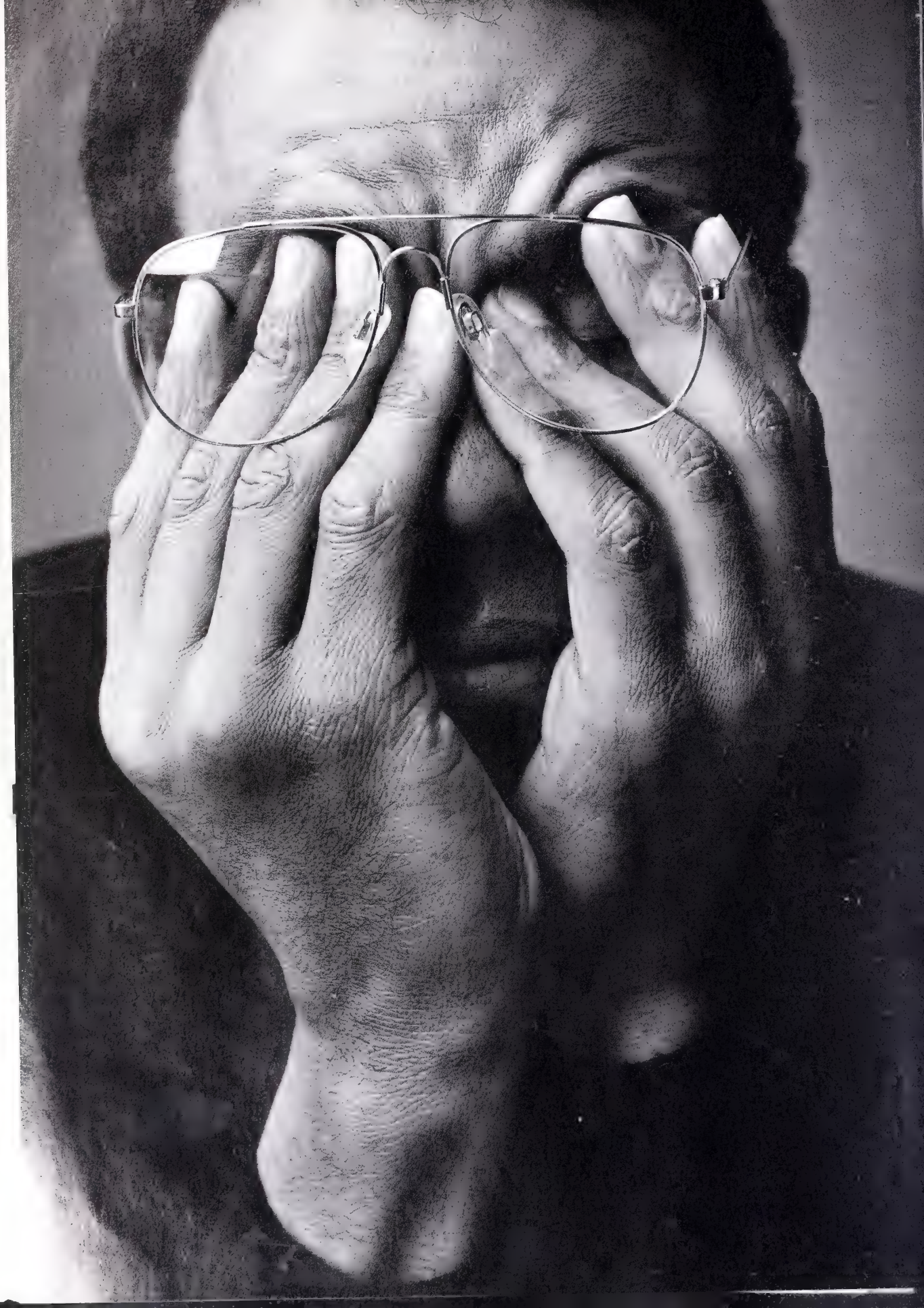
According to safety experts who reviewed flight data, the MD-11 had trouble shortly after it took off from Taipei. At about 3,000 feet, it rolled to the left, bringing the nose up sharply and sending the plane up to about 6,000 feet in a matter of seconds. Then, sources close to the incident say, the aircraft stalled temporarily, sending the plane plummeting back to 3,000 feet.

BAD SLATS? "This was a major event, no doubt about it," says a top U.S. safety official who reviewed the flight data. Even so, McDonnell Douglas Corp. filed a standard one-paragraph report on the incident to the FAA and did not mention Allen's death. A McDonnell spokesman says he assumes the company's Taipei representative filed everything he knew.

What was wrong with the plane? Knowledgeable sources suspect a problem with retraction of slats on the leading edge of one of the 277-seat MD-11's wings. McDonnell Douglas acknowledges past problems with the slats but says there hasn't been a recurrence in three years. A spokesman termed "hogwash" any connection between the China Airlines incident and any design problem with the slats. He blames the episode on an open door.

U.S. safety officials think the pilot should have returned to Taipei immediately when the plane took its dive. Says one: "The captain put the whole plane at great risk."

By Christina Del Valle in Washington



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Another

paradigm

shift."

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CONGRESS

THE COOKIE MEISTER IS CHASING NEWT

Millionaire Mike Coles may keep him busy this election

Michael J. Coles first proved that he knows how to handle long odds back in 1969. At 25, he was managing the Michigan territory for Male Slacks & Jeans. When a major auto strike began, seasoned salespeople forecast doom for apparel sales. Not Coles. He gave his team a rousing pep talk and stepped up the frequency of sales calls. Instead of losing sales, Coles's territory was the company's top performer during the strike. The chairman of parent company Genesco Inc. wrote a two-page letter praising Coles. Coles penned a simple, two-word reply. "What strike?"

Coles will need such bravado in the fight he has just taken up. The founder and chief executive of the Great American Cookie Co., Democrat Coles, now 52, has entered the primary race for the nomination to oppose House Speaker Newt Gingrich in Georgia's sixth congressional district. Coles plans to use his business résumé and a decent (if untested) stump style to give chase to Gingrich. Of course, there's his money, too. Gingrich raised $718,000 in the first quarter and has a $1.2 million war chest; Coles plans to spend at least $1 million of a $30 million self-made fortune on the campaign and hopes to raise $2 million more. "I won't lose this campaign because I ran out of money," he vows.

ELECTION '96

It's a good package. Still, says Atlanta pollster Claibourne H. Darden: "Newt has to beat himself" for Coles to win. A February Gingrich campaign poll shows that a mind-boggling 75% of likely voters think Gingrich deserves reelection. Gingrich campaign manager Dave Ryan expects Coles to burn big bucks taking on two primary opponents—one of them Tony Center, who narrowly lost to Gingrich in 1982.

Coles plans to focus his campaign on his background and reasons for running for office. He has been a striver since age 8, when a fire at his father's rag-recycling business forced him into bankruptcy. Coles began doing neighbors' yard work—and ended up hiring other kids to do the job. He held down two jobs in high school, where his formal education ended. By age 31, he had founded his own clothing company.

Tired of the clothing biz, he and a partner put together $8,000 in 1977 to found the cookie company. Six weeks later, Coles was nearly killed in a freak motorcycle accident. Told he would never walk again, he became an avid bicyclist. In 1984, he set the speed record for the trip at the time: 11 days, eight hours.

Great American Cookie survived a few scrapes, too. Now, it's the nation's top cookie franchisor with 400 stores—mostly in malls—and nearly $100 mil in sales. Its secrets: new products, quent store redesigns, and aggress marketing to corporate clients. "H done so many things people have him he couldn't do," says Florida fr chisee Jerry Shell. "If anybody can b Newt, Michael can."

Still, that's unlikely. So why is C running? He says he made the decis while watching the government gr to a halt over budget impasses. C blames Gingrich and the GOP. "There's arrogance there," he says. He also thi Gingrich has lost touch with his dist while pursuing a national agenda. got a taste for political dealmaking November, when he helped medi talks that kept Lockheed Martin C from moving 12,000 jobs to Dallas.

BACKS CHOICE. Coles plans to run Newt with a heart—a probusiness, fi conservative who favors balancing budget before cutting taxes. He's pro-environment, big on education, pro-choice. But he's short on specifics. he mulls a query about President Clint veto of a law banning late-term aborti campaign manager Kate Head quickly tervenes. "We haven't formulated a p tion on that," she announces.

Still, the Democrats may consi Coles's campaign a victory if it j keeps Gingrich busy, limiting his abi to stump for the GOP nationwide. "G grich will have a real race, and have to spend a lot of time in his d district," says Representative Ma Frost (D-Tex.), head of the Democra Congressional Campaign Committ Coles's determination is impressive. it's his money that means that Ne can't take this race too lightly.

By David Greising in Atla

MICHAEL J. COLES

BORN Brooklyn, N. Y., Feb. 9, 1944.

EDUCATION High school only.

CAREER Founded Great American Cookie in 1977, with an investment of $8,000. Today, the chain boasts 400 franchises and sales of nearly $100 million.

PUBLIC LIFE No prior political experience, bu gives generously to environmental causes such as Trout Unlimited.

PLATFORM Balance the federal budget first, then cut taxes. Cut agriculture subsidies. Control guns. Improve environmental protection. Protect welfare and medicare.

PERSONAL Set record in 1984 for crossing U. S. on bicycle: 11 days, eight hours.

LLIE NORTH GOES UNNING FOR INVESTORS

t his company's planned IPO may wind up wounding wallets

llie North has never been shy about cashing in on his notoriety. In the ıde since the Iran-*Contra* ıdal vaulted him to promi- ce, the ex-Marine lieu- nt colonel has raised more ı $32 million from sup- ers—mostly small con- ıtors. He used the funds efend himself against crim- charges of lying to Con- ss and destroying docu- ts and for an unsuccessful Senate bid. Now, North ying to leverage his name n—to bail out his troubled etproof-vest company.

s early as May, North, plans to sell 26% of his rdian Technologies Inter- onal Inc. to the public. rdian, based in Sterling, has lost nearly $2 mil- since its founding in 1989. North figures the $3.9 ion he aims to net will the company around— etting Guardian move to offices, buy new equip- t, diversify its product and tap new markets.

ven North's biggest fans, ever, might want to scru- e the deal before invest- Guardian's auditors have ned that—without the cash infusion— e is "substantial doubt" the company survive. Even if the deal flies, the pectus says the money may last only nonths if business doesn't pick up. ertheless, "with the right financing, think the company can make a strong of it," says Howard B. Berger, vice- ident of Landmark International Eq- s, the deal's underwriter. But "obvi- y, there are no guarantees."

ATEUR NIGHT." That's not all. rdian plans to sell 850,000 units— is, a share of stock and a warrant uy another one down the road—at a posed offering price of $5.10 per unit. rdian has already sold 2.3 million res through private placements, ch means that the stock will imme- ely be diluted by 25%. Moreover, offering may also include the sale of 000 shares from existing investors, could reap a tidy gain over the $1.30 average price they paid. "No one in his right mind would invest in this for economic reasons," says M. William Benedetto, chairman of Benedetto, Gartland & Greene Inc., a New York investment firm. "This is amateur night."

North isn't among the investors selling shares. But the deal will allow him to begin selling part of his 14.7% holding in January, 1997—just before Guardian could begin running out of cash. He and partner Joseph F. Fernandez, a former Costa Rican station chief for the CIA, will be able to begin cashing in some 300,000 options at 44¢ each next January—options they awarded themselves as the only members of the board's executive-compensation committee.

Most investment banks wouldn't touch such a risky deal. Indeed, North already tried to take Guardian public in 1993. At that time, say three sources close to the deal, underwriters wouldn't go near Guardian because the books were such a mess.

GREENHORNS. Even now, the prospectus includes typos and conflicting statements of the company's 1994 operating profit. In Landmark International, North has a relatively green underwriter: the Westbury (N. Y.) outfit has only two IPOs under its belt—both money-losers for investors. Shares of Green-Man Technologies Inc., which recycles old tires into rubber products, hit 8¾ after going public in October but traded on Apr. 17 at only 5. R. F. Management Corp., which operates radiology outpatient centers, went public in July at 7¼ a share; on Apr. 17, it was at 3¾.

Even if North raises the money he needs, his competitors won't exactly be quaking in their bulletproof vests. Guardian's high-priced garments—up to $1,000 apiece—have been slow movers, and the company is too small to bid competitively on most big contracts. "Guardian is not perceived as a threat, and I don't expect it will be in the future," says James G. Magee, president of rival Point Blank Body Armor.

North won't comment on the deal, citing Securities & Exchange Commission rules against hyping upcoming stock offerings. "It's against the law, and I never break the law," he says. He remains a hero to legions of "Ollie" admirers—who may well overlook Guardian's shaky prospectus to throw more money at their champion. But as an investment, this deal is anything but bulletproof.

By Mark Lewyn and Michael Schroeder in Washington

"I NEVER BREAK THE LAW": *North refuses to comment on the upcoming offering*

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FOUNDED Virginia, 1989

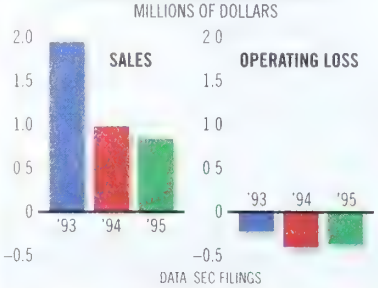
CHIEF PRODUCTS Bulletproof vests and shields

OFFERING 850,000 units of stock and warrants at $5.10 apiece–for a net of $3.9 million

UNDERWRITER Landmark Intl. Equities, Westbury, N.Y.

NOT EXACTLY BULLETPROOF

GUARDIAN TECHNOLOGIES RESULTS
MILLIONS OF DOLLARS



DATA: SEC FILINGS

SMOKING

DID SMITHKLINE FIND THE SMOKING GUM?

It sees huge demand for an over-the-counter antitobacco chew

In the heady world of consumer products, it sounds like a sure loser—a chewing gum with a nasty, peppery taste. Each piece costs nearly 50¢ and, according to the instructions, you're only supposed to chew it two or three times before "parking" it by your cheek, like a plug of snuff. Yet SmithKline Beecham is predicting that demand for its Nicorette chewing gum, which was to debut on Apr. 18 as the first over-the-counter nicotine-treatment product, will explode. Likely buyers: "a huge portion of the smoking population," says John S. Ziegler, president of SmithKline's Consumer Healthcare.

The Food & Drug Administration's approval of Nicorette as an over-the-counter product ratchets up the smoking-cessation battle. In the first major broadcast campaign for smoking-cessation aids, SKB is backing Nicorette with a $70 million campaign, much of it prime-time TV ads. If the FDA approves over-the-counter sales for nicotine patches, as expected later this year, the airwaves may soon be smoldering with antitobacco pitches. Antismoking activists hope the new products will spark a quitting binge among smokers.

That would be a switch. Prescription patches proved a short-lived craze, tumbling from $300 million in sales in 1992 to $136 million last year. Prescription gum sales only amounted to $78 million last year. The problem: Consumers were led to believe, says SKB's Ziegler, that the patches, which release nicotine through the skin, were easy fixes. Many doctors didn't follow through with counseling on how to quit. The result: Three of four were disappointed, as were chewers of the nicotine gum.

JUST A FAD? Still, of the 46 million smokers in the U.S., a full 70% say they would like to quit, according to the American Lung Assn. (ALA). Those who use nicotine-treatment products are twice as likely to succeed as those who go cold turkey. But most don't want to visit a doctor to start a quitting program. By eliminating the need for a prescription, SKB figures it can tap a potential market of 23 million people. Initially, Nicorette will be sold in 108-piece starter kits, about a two-week supply, for $50. That's 75% less than the prescription price. As a result, SKB expects sales to quadruple, to $330 million, in 1997.

The question: Will the gum prove a fad, too? To boost the success rate, SKB is tying Nicorette to an education program. Unlike the annoyingly oblique ads for patches, in which the devices were hyped but, for regulatory reasons, not explained, SKB is rolling out testimonial TV and print ads that give smokers a better grasp of what's involved. Starter kits include an audiotape and a user's guide. And working with the ALA, SKB has come up with a customized quitting program. Smokers provide information on their habits, and the company sends them letters with suggestions and p vides a toll-free support number. Inf mation is even posted on a Web s (http:\\www.nicorette.com).

With their 2 or 4 milligrams of n tine, about the same as a cigaret Nicorette tablets give users a way deal with cravings. But the gum, wh allows nicotine to seep into the blo stream, doesn't give the satisfaction a deep drag from a cigarette, wh rushes the drug to the brain in f heartbeats.

McNeil Consumer Products Co. ho to capitalize on that failing. That co pany's new nicotine spray, Nicatrol, lows smokers to inhale half a milligr up each nostril. The spray was appro by the FDA in early April but has dr backs. It can only be obtained by p scription. Plus, a 40-milligram dose be fatal, and the FDA warns that for more than three months can ca nasal lesions and addiction.

As the FDA and drug companies r nicotine replacements to the market, bacco companies are offering their c alternatives. RJR Nabisco Inc.'s n Eclipse cigarette, now in tests, relea nicotine from heated charcoal, deliver the drug to smokers without burn tobacco. Antismoking scientists po pooh such devices. "There's no [healt way to inhale smoke," says Edwin Fisher, a professor at Washington U versity School of Medicine. He's proba right. That's why the FDA and the d companies are coming up with plenty alternatives for the nicotine-addicted

By Stephen Baker in Pittsbu

SMOKING AND QUITTING

AMERICAN ADULTS WHO SMOKE	46 million
THOSE WHO WANT TO QUIT	32 million
ONE-YEAR QUIT RATE WITH NICOTINE TREATMENT*	20-25%
ONE-YEAR QUIT RATE WITHOUT TREATMENT	12%
ANNUAL SALES OF ANTISMOKING AIDS	Patches: $138 million Gum: $70 million

*Patches, gum, or nose spray

DATA: AMERICAN LUNG ASSN., COMPANY REPORTS

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Canon

COMMENTARY

By Stephen Baker

THE RIGHT SPOT FOR THE IDIOT BOX

Our basement probably isn't much worse than most others around Pittsburgh. It's an icy dungeon in the wintertime, and in summer—shedding season—it gives off the acrid aroma of dog. I've furnished it with our neighbors' castoff arm chairs, each with a scent of its own. And the washing machine, which is down there, too, sometimes shakes and rattles its way across the floor, as if trying to escape. The basement embarrasses my children no end. But that's where they must huddle if they want to watch TV.

Beginning on Apr. 24, a Washington-based group called TV-Free America, in its second annual National TV Turnoff Week, is urging Americans to pull the plug on their televisions for seven days. Last year, the group says, 1 million people participated in the event, which is largely organized through schools; this year, it figures that 3 million will do so. With American TV watching up 10% since 1990, according to a study by the investment-banking firm Veronis, Suhler & Associates, and kids now spending an average of five hours in front of the TV for every three they spend in school, communities from Wallingford, Conn., to Walnut Creek, Calif., are joining the campaign. Our Pittsburgh household will, too, though I doubt our kids will notice, since we hardly watch anyway.

Why not? Imagine you have a very loud neighbor who follows you into your house, talking nonstop, saying all kinds of things that you don't want your kids to hear. Picture this person sitting at dinner with you, showing pictures of corpses and rapists while you're trying to get your children to eat broccoli. At around 8 p.m., he starts joking about orgasms and condoms. And this neighbor, who never listens to anyone, spends lots of time trying to sell things. You'd kick the guy out, right? Yet two of three U.S. families eat dinner with the TV on.

I have on my desk a stack of papers listing the evils of TV. Former Surgeon General C. Everett Koop blames it for a good share of teenage obesity. Countless politicians blame it for purveying trash. Yet even those who agree with these views all too often take the role of victim, begging the networks to provide better programming. And what about the garbage kids watch? Out of sight, out of mind: Half of America's school children have TVs in their rooms, TV-Free America says.

Radio Days: American kids spend an average of five hours in front of the TV for every three in school

HOOKED ON CONSUMPTION. My wife Jalaire and I first decided to tune out when we lived in Mexico, where I was stationed for five years. Reception in our little canyon near Mexico City was miserable, so TV wasn't a big issue. I missed baseball, but our kids never heard that anything "sucked." Our 3-year-old played with bows and arrows made from guava branches. We knew things would grow more complicated when we moved north.

We got a preview of bad influences to come when my stepson, then 10, returned from a summer of heavy TV watching in the States. His first week back, he complained endlessly of boredom. The only antidotes, it appeared, were eating out, shopping, and renting movies. He was temporarily hooked on consumption. We took a hint. When we moved to Pittsburgh four years ago, we put the set in the basement and set up the rules: No TV watching during the school week and limited viewing on weekends.

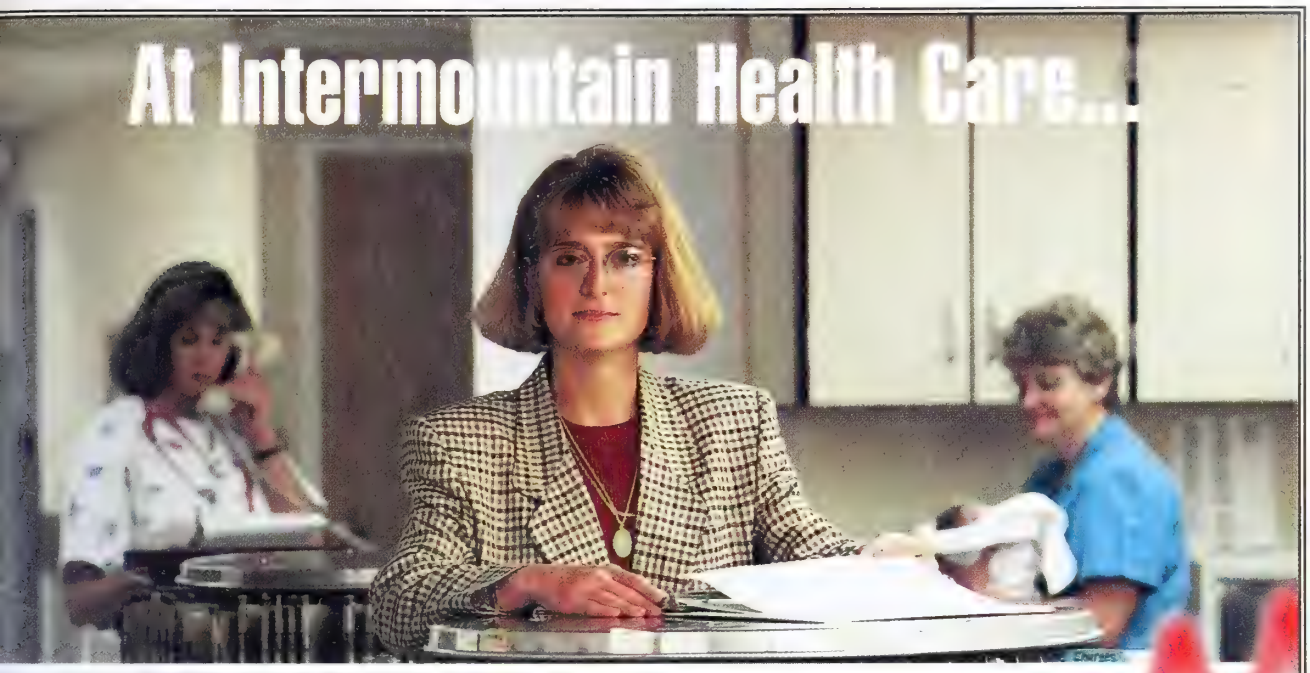
We worried a bit about the social consequences for our children. Was it fair to plunk a 12-year-old from Mexico into Pittsburgh and then separate him from the information stream he would need to assimilate? Would he ever invite friends to spend time in the smelly basement with a tiny, rabbit-eared TV? Probably not. So, I went halfway. I ripped out the smelly orange shag carpeting and bought a big new TV. But without cable, my stepson, who's 15 now, still doesn't invite friends over to watch.

As I write this article, I set up my laptop on the dining room table next to him. He's reading *Gai-Jin*, a giant book by James Clavell. I ask him what he'd watch if we had cable. He puts down the book and thinks. "I'd probably invite over friends and we'd, like, flip the channels," he finally says. "Why? You thinking of getting cable?"

"No. Just writing an article."

"Oh." He picks up the book. Even if we got cable, he'd have to put up with that dank basement. It's our last line of defense in the TV wars, but a good one.

Baker is BUSINESS WEEK's Pittsburgh bureau chief.



The SAS® System Helps Monitor the Pulse of Patient Satisfaction

As more and more health care providers offer similar services at comparable prices, patient satisfaction is fast becoming the new basis of competition. To help monitor how patients perceive the quality of the care they receive, Intermountain Health Care (IHC) is turning to the SAS System of software.

"The SAS System has enabled us to develop a unique reporting system that includes all the information required by our front-line managers and administrators—in a format that works for them," says Glen McBride, IHC's manager of strategic research.

A Fast, Effective Remedy for Every Reporting Need

"We needed a reporting system that could get relevant, easy-to-understand patient feedback into the right hands in an efficient, timely manner," says Sarah Luker, research associate at IHC (pictured above). "The SAS System was the only software system that came close to meeting our complex reporting needs."

Since IHC serves almost a million patients every year, that's a lot of feedback. "With the SAS System, we generate hundreds of unique reports each month," adds McBride. "At a glance, managers can see how patients perceive the quality of various aspects of the hospital experience, such as admitting procedures, nursing care, and physician care."

A Healthy Dose of Relevant Consumer Data

"This valuable month-to-month feedback enables us to make *appropriate* changes to the care we provide," McBride explains. "And that helps us to offer the best possible care to patients who visit our 23 hospitals in Utah, Wyoming, and Idaho."

Having implemented such a successful reporting system for IHC hospitals, what's next? Luker says, "Because of its flexibility, we'll soon be using the SAS System to provide valuable customer feedback to employees across all *three* IHC divisions—the hospital, health insurance, and physician groups."

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EDITED BY KELLEY HOLLAND

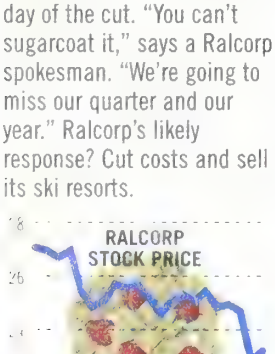
BABY TALK FROM BOB ALLEN

THE STOP-AND-GO MERGER talks between Bell Atlantic and Nynex are on again. But a deal could mark just the beginning of headaches for the two Baby Bells. AT&T could try to block any deal at the starting gate, AT&T CEO Robert Allen told reporters before the annual meeting on Apr. 17. "It's hard for me to comprehend how the combination of two or more Baby Bells creates more competition. I think the Justice Dept. would be very careful . . . regarding potential market concentration," Allen said. Even if a deal happens and the outfit is able to compete for the Northeast's $10 billion in annual long-distance business, it stands to lose hundreds of millions in the local access charges it collects from AT&T, MCI, and Sprint.

CLOSING BELL

CEREAL KILLER

Tough times for Nutty Nuggets: The cereal pricing battle, launched on Apr. 15 when Kraft Foods' Post unit cut prices 20%, has wounded Ralcorp Holdings most. Post's move narrows the price gap between Ralcorp knockoffs and such Post brands as Grape Nuts. As a result, Ralcorp stock fell 1⅛, to 22¾, the day of the cut. "You can't sugarcoat it," says a Ralcorp spokesman. "We're going to miss our quarter and our year." Ralcorp's likely response? Cut costs and sell its ski resorts.



THE FTC BUSTS A DRUGSTORE MERGER

NO DICE: THE FEDERAL Trade Commission voted 5-0 on Apr. 17 to seek a preliminary injunction blocking Rite Aid's $1.8 billion bid for rival Revco. Such a vote kills most deals. Rite Aid was hoping to create an $11 billion, 4,500-store drugstore chain. But the FTC said that would substantially reduce competition in nine states, citing possible price increases to employees covered by pharmacy benefit plans as an example. The FTC moved after Rite Aid announced it would no longer extend its deadline for closing the deal. Rite Aid is extending its offer for Revco.

POWER PLAYS IN THE POWER BIZ

SPARKS ARE FLYING AMONG electric utilities. Western Resources in Topeka, Kan., launched a $1.7 billion bid for Kansas City Power & Light on Apr. 14, even though Kansas City had already agreed to a $1.3 billion deal with its neighbor, Utilicorp United. Western is promising more money, greater retail rate reductions, and consistent corporate contributions. But Utilicorp, insisting it is "strongly committed" to its own deal, is expected by analysts to raise its offer. Meanwhile, Western Resources wants an answer by Apr. 22. As of Apr. 17, Kansas City wasn't talking.

ENDING NABISCO'S BATHROOM BRAWL

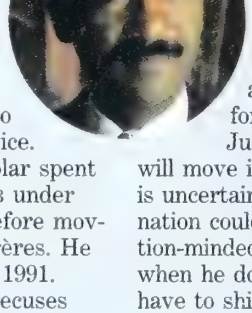
IS NABISCO GIVING NEW meaning to hardball? On Apr. 14, the company announced it had settled a sex-discrimination case filed by former line workers at its Oxnard (Calif.) plant. Terms weren't disclosed. The workers at the plant, which made products including A-1 steak sauce and Grey Poupon mustard, filed a class action in early 1995, alleging that female employees were not allowed bathroom breaks, forcing them to wear diapers to work. The Oxnard plant has since been closed. Nabisco denies any wrongdoing and denies worker and union allegations that the closing was in response to negative publicity from the litigation.

OPRAH'S MAD COW STAMPEDE

NOW OPRAH WINFREY IS MOVing markets. The talk-show host sent cattle futures plunging at the Chicago Mercantile Exchange when she focused on Britain's "Mad Cow" scare in her Apr. 16 broadcast. True, ca prices were primed fo setback. Soaring grain pr have raised the cost of fe prompting herd liquidati that could flood the mar with red meat. And c markets were already tr ing lower before Op weighed in. But her be bashing "tipped this th over," says William O'N who heads commod research at Merrill Lyn "She'll probably say so thing about copper ne

HEADLINER: FRANK RAINES

THE MAN FROM FANNIE



Fannie Mae, long envied for its well-placed allies, just got a new one: On Apr. 12, President Clinton tapped Fannie Vice-Chairman Franklin Raines to head the Office of Management & Budget.

For Raines, the nomination marks a return to government service. The Rhodes scholar spent two years at OMB under Jimmy Carter before moving to Lazard Frères. He joined Fannie in 1991. Now, unless he recuses himself from certain debates, Raines, 47, could be in a position to influence issues near and dear to Fannie, including fees on government-sponsored compa nies such as Fannie.

Raines's departure will leave a void at Fannie, where he oversaw the ambitious pr gram to automate home-mortgage underwriting. Fannie has not announced plan for a successor.

Just when Raines will move into his new job is uncertain, since the nom nation could stall in an ele tion-minded Senate. And when he does start, he'll have to shift into high gea immediately: Raines needs to strike a budget deal be fore the deficit starts to climb again in 1997.

By Amy Barr

ET CETERA . . .

■ RJR Nabisco sharehold turned thumbs down to B nett LeBow's board slate

■ Senate Republicans Democrats struck a deal resume Whitewater hearin

■ Security Dynamics loc up a deal for RSA Data curity, a Net security out

■ New oxymoron: Middl will demo greaseless fre fries at a May trade show

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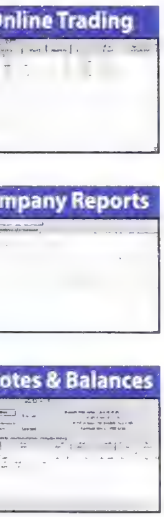

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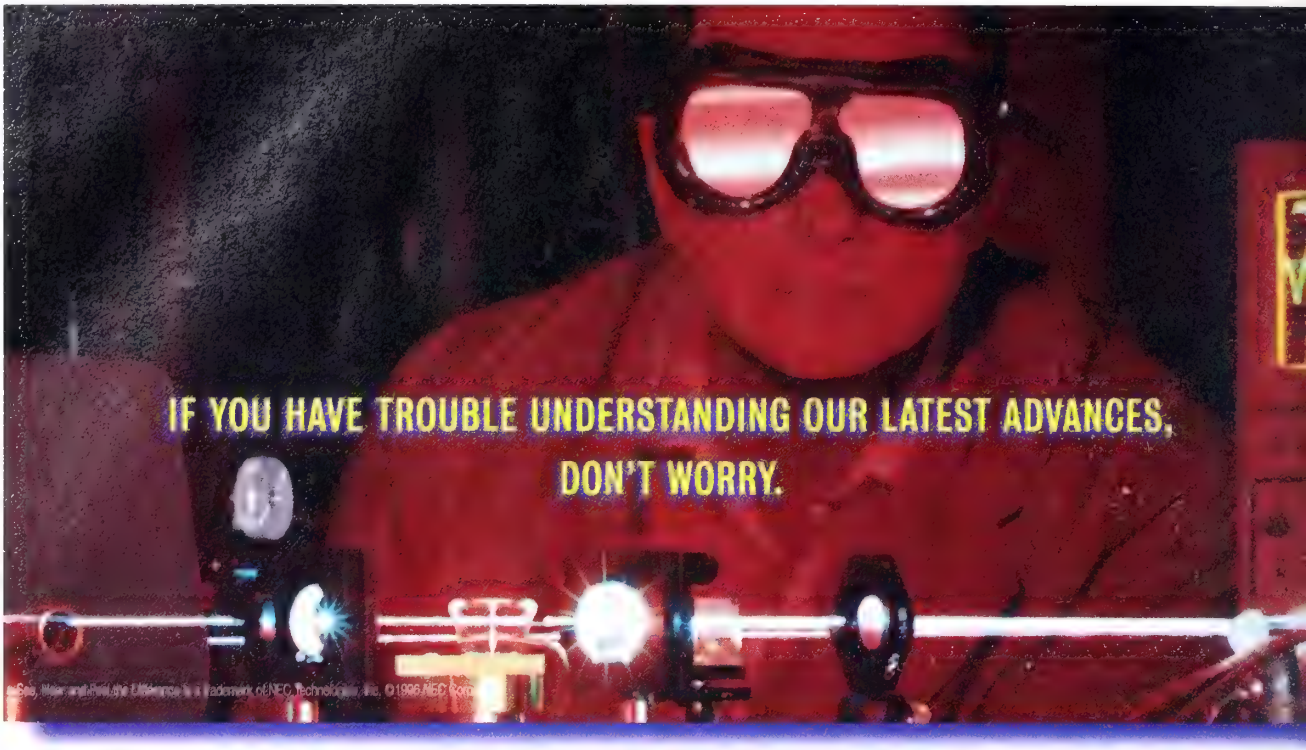

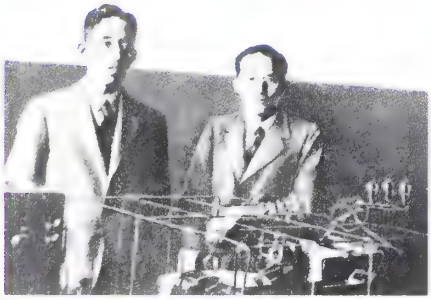

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OWEN ULLMANN

AS BOB DOLE FOUND IS WILLIE HORTON?

ob Dole would love to run against President Clinton's lousy economic record. But the economy is growing, unemployment is low, and Clinton trumped the GOP with his balanced-budget plan. What's a Republican to do? Would believe dress Willie Horton in drag?

search of a "wedge issue" to pry white voters from Clin- Republicans think they may have hit pay dirt in the per- of one Josephine Brown. Currently serving time in a rado prison for auto theft and burglary, Brown, like fur- ned rapist Horton, symbolizes what Re- ican strategists bemoan as the decline of rican values. For starters, she's an Amer- Indian. What's more, she's a transsexual Joseph), and a demanding one to boot.

rown claims the state violated her consti- nal rights by refusing to provide the hor- e estrogen, needed to maintain feminine butes such as enlarged breasts. Last sum- an appeals court—in a decision written by inton appointee—ordered a judge to re- ider Brown's claim. The GOP calls it an- sign of Clinton's love of "liberal judges"— chphrase Dole echoed in recent days.

RUS OF CRITICS. "It's a reach to convince le that the economy is bad," concedes one ublican insider. "But the attack on liberal es showcases how Clinton has the wrong es." Dole hopes that stirring voter anxieties t social decay will boost his campaign. That's why in ch, Dole joined the chorus attacking a federal judge in York, Harold Baer Jr., a Clinton nominee. His sin: re- g to admit as evidence a cocaine cache seized because of t he saw as an improper police search. Baer reversed elf after Dole, then a me-too Clinton, criticized his ruling. udge-bashing also gives Dole a chance to show he's more ervative than Clinton on hot-button issues such as axing mative action, curbing gay rights, making English the official language, and protecting property rights. "Federal judges rule on issues ranging from assisted suicide to states' rights," says GOP strategist William Kristol. "This is a way to point out the striking differences between the two candidates." Indeed, Dole was to deliver a major speech Apr. 19 assailing Clinton judicial appointments and vowing to name trusted conservatives to the bench.

BAER: *Judges in the dock*

Traditionally, voters consider the GOP tougher on crime. But Clintonites predict Dole's attacks will fizzle. The President gained cover by winning passage of an anti-crime bill that promised to put 100,000 new cops on the street and stiffened federal sentencing guidelines. He's also on the popular side of the assault-weapons ban, which Dole—in a nod to his National Rifle Assn. allies—has pledged to overturn. And progressives consider the "liberal judges" rap laughable. Unlike President Reagan, Clinton has been notoriously lax in screening judicial appointees for ideological purity. Most of his picks have been moderates.

Dole's portrait of out-of-control criminals also seems out of touch with reality. Statistics show that violent crimes leveled off under Clinton, after rising under Presidents Reagan and Bush. And the White House could point to plenty of GOP jurists who appear as soft on crime. "Republicans are creating a red herring with judges because our record on crime is good," says Clinton campaign aide Joseph Lockhart. "People won't buy it."

Maybe not, but others don't dismiss the scare campaign so easily. "Republicans resonate with voters when they resort to Willie Horton issues," says Rutgers University political science professor Ross K. Baker. With polls showing that crime remains high on voters' lists of concerns, Josephine Brown may soon get her 15 minutes of fame—adding a polarizing new note to what already figures to be an ugly campaign.

With Catherine Yang

CAPITAL WRAPUP

IRISTMAS IN AUGUST

Senators eager to bypass new rbs on lobbyists' gifts have a pal in nate Ethics Committee Chairman tch McConnell (R-Ky.). He wants waive the rules during August's emocratic and Republican convenns so lobbyists can hand out freees such as sports tickets and hotel ays. McConnell says a waiver is eded because his panel can't handle ores of queries on what gifts are gal. Public Citizen calls the plan "a p in the face of the public."

PINK SLIPS, SILVER LININGS

▶ The National Association of Manufacturers has mounted a counteroffensive to all the headlines about layoffs. A new NAM white paper claims rising U. S. competitiveness and worker productivity, lower interest rates, regulatory reform, and low inflation will boost wages and the standard of living into the next century. Media coverage "is inflammatory," gripes NAM, which says workers should stop feeling like "victims" and focus on ways to thrive in the new economy.

BILL AND LIDDY?

▶ Though the President enjoys a 50% to 42% lead over Bob Dole in a new Presidential poll, the public has a different preference for First Lady. An Apr. 11-14 survey by Lansing (Mich.)-based EPIC/MRA found Elizabeth Dole outpolling Hillary Rodham Clinton, 43% to 36%. The First Lady took the women's vote by 10 points, while Liddy Dole won nearly 2 to 1 among men. Only 5% of Dole voters said they prefer Hillary, but 13% of Bill Clinton supporters defected to Liddy.

INDIA

MODERN INDIA HAS BEEN PUT ON HOLD

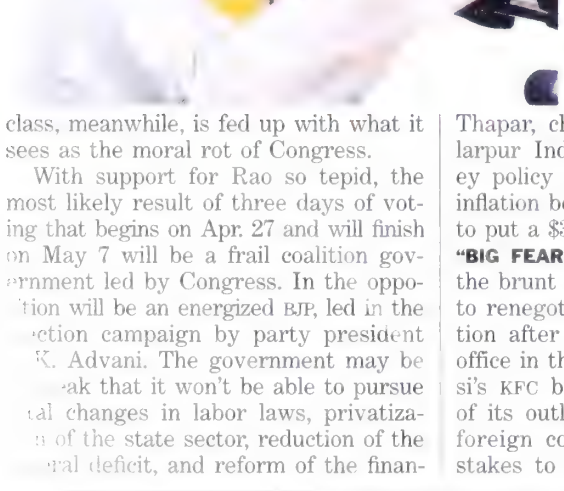
A backlash against reform stalls an unfinished agenda

It's 7 a.m., and the hot sun is starting to cook the Bhanwarsingh squatter settlement near New Delhi. As a stream of people pump water from a communal well, Bharatiya Janata Party (BJP) politician Sushma Swaraj launches into a speech decrying the ruling Congress Party. "Congress hasn't given you enough food to eat or a place to live," she shouts to an audience of 100 people.

For the 190 million Indians who live below the poverty line, five years of economic reforms haven't improved their standard of living. Shantytowns such as Bhanwarsingh still dot the urban landscape. Millions of poor—who get by on less than $9 a month—believe that only the elites have benefited from Prime Minister P.V. Narasimha Rao's reforms. The middle class, meanwhile, is fed up with what it sees as the moral rot of Congress.

SCANDAL-PLAGUED

Tepid support for Rao may force him into a coalition



With support for Rao so tepid, the most likely result of three days of voting that begins on Apr. 27 and will finish on May 7 will be a frail coalition government led by Congress. In the opposition will be an energized BJP, led in the election campaign by party president L.K. Advani. The government may be weak that it won't be able to pursue vital changes in labor laws, privatization of the state sector, reduction of the fiscal deficit, and reform of the financial industry. "Everything is on hold," says Alok Vajpeyi, director of research at investment bank BZW India.

A big slowdown in reforms raises the risk that ballooning fiscal deficits will cause a crisis. When Rao took power in 1991, he gave Finance Minister Manmohan Singh the go-ahead for an ambitious overhaul of India's socialist-inspired economy. Now, the rocky political landscape is slowing privately funded infrastructure projects in power, telecommunications, ports, and roads. Last year's growth of 6% and 8 million new jobs won't be enough to keep pace with the growing population, which is expected to surpass China's around 2020. India's opening to the outside world could stall—with disastrous results for growth and job creation.

Yet enthusiasm for further change has waned. Short-term interest rates have soared to 20% as the government has attacked inflation. That has hurt many businesses even as foreigners move in on their turf. Over the past year, high-profile investments by Enron Corp. and PepsiCo Inc. have been targets for anti-reform leaders. Now, even businesspeople are turning more protectionist. "Indian industry needs more time to be competitive," says Lalit Mohan Thapar, chairman of papermaker Ballarpur Industries Ltd. The tight-money policy that has squeezed wholesale inflation below 5% has forced Ballarpur to put a $300 million paper mill on hold.

"BIG FEAR." Multinationals are bearing the brunt of the frustration. Enron had to renegotiate a $2.8 billion power station after an opposition coalition took office in the state of Maharashtra. Pepsi's KFC braved protests and saw one of its outlets briefly closed. Now that foreign companies can increase their stakes to 51%, up from 40%, in most

industries and even 100% in othe
some locals worry that foreigners
about to run roughshod over the
"There is a big fear that the country
being sold too cheaply," says Mrityun
Athreya, a consultant in New Delhi.

In infrastructure, where the
agrees with Congress on the need
foreign investment, progress has be
slow. "The foremost task for any n
government will be to set credi
rules of the game for attracting priv
investment into infrastructure," c
ceded Singh in an interview with BU

HINDU NATIONALIST
The BJP party of L.K. Advani (center) isn't expected to win

s WEEK. For instance, telecommu-
tions policy has witnessed numer-
reversals, with some companies
pped of licenses they had won in
petitive bidding after a sudden
nge in rules. "Decisions are still
ely embroiled with politics," says
Medappa, managing director of
West (India) Pvt., whose company
two of five cellular franchises it
after the government changed the
s last year. AT&T, Bell Atlantic, and
nex also have been frustrated in
s to crack the market.

Most discouraging for reformers is the realization that the backlash has set in even before India has undertaken the most painful changes on the agenda. The government has not yet touched sacrosanct labor laws that make it virtually impossible for any company employing more than 20 workers to shed labor. "It is going to be a very, very long haul," says Bibek Debroy, who heads a team backed by the Finance Ministry that is trying to revise commercial laws.

India also must come up with a policy to deal with the state sector. About 200 of the country's 220 centrally owned companies are chronic money-losers. The situation is even worse for the companies owned by individual states. Heavy borrowing by government companies—$60 billion from the central government alone—drives up interest rates throughout the economy. With interest payments swallowing just over half of government revenues—and nearly equivalent to the sizable fiscal deficit of 5.6% of GDP—a radical privatization program would free up massive resources for social spending and infrastructure. But even Singh vows the government will stick to its policy of keeping at least 51% ownership of most state companies.

For all the hesitation, neither Congress nor the BJP will turn back the reforms that have already taken place. Some hardy investors take the view that they must be in India no matter how glacial the rate of change. Consumer-goods companies such as Baskin-Robbins International Co. and McDonald's Corp. are moving in despite antiforeign sentiment.

Indeed, some portfolio investors have turned bullish on India. Foreigners have poured $1.2 billion into the long-depressed Bombay exchange so far this year, betting that many of India's companies will benefit from the reforms already in place. That's nearly as much as in all of 1995, and it has helped the market rise more than 25% from its January low. And politicians are hopeful that direct and portfolio investment will increase far above last year's $2 billion. "In the next two or three years, the flow of foreign investment can rise to at least $10 billion," comments Finance Minister Singh.

RAMBLING ALONG. As India rethinks its reform, however, the result is certain to be a slower pace of change, and that's what could prove so crippling. Meager growth may not be enough to help the poor squatters in the Bhanwarsingh settlement in New Delhi and their even poorer cousins in rural agricultural areas. To help them, the government needs a stronger economy, in part to pay for more social services such as schools and hospitals.

As the world's largest democracy, India rambles along at its own pace—one that requires political consensus of a sort that autocratic neighbors haven't had to worry about.

The risk now is that India's reforms will get stuck halfway at the same time global competition gets ever stronger. For India, the soft path of reform has worked well so far. But politicians may discover that if they don't move faster, they'll find even more trouble ahead.

By Mark L. Clifford in New Delhi, with Manjeet Kripalani in Bombay

CHANGING ATTITUDES TOWARD CHANGE

- Protectionist sentiment is building among some business leaders who are losing out to foreigners with access to cheaper capital
- Opposition is building to allowing foreign companies majority ownership of joint ventures
- Politically powerful labor unions are helping to prevent changes in laws that virtually forbid layoffs
- Widespread opposition has led to postponement of privatization of state enterprises
- Infrastructure projects remain stalled despite an apparent consensus among politicians of all parties that they must proceed

DATA: BUSINESS WEEK

ASIA

THE HOT SPOTS CLINTON SKIPPED OVER

China's aggressiveness spurs the arms race in Southeast Asia

When President Clinton left Asia on Apr. 18, he had struck a blow for stability. By agreeing to redeploy U.S. forces on Okinawa while maintaining troop levels of 47,000, he drew Japan into a tighter security embrace to counterbalance China's mounting power. Having also just displayed its naval clout in the Taiwan Strait, the U.S. felt it had solidified a credible security framework for the region.

But an important item on Asia's security agenda didn't receive the same attention. Clinton's itinerary skipped Southeast Asia, a vast region of 400 million people, also groping for a military response to China. For years, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have been building their military punch. But they lack any formal security arrangement, and they're more ambivalent toward U.S. military forces than Japan or South Korea. The Philippines' expulsion of American troops in 1992 is a case in point.

TENSION. Now, however, the search for security is taking on new urgency because of what some refer to as the "X-factor," or the unpredictable actions of China, such as its missile tests off Taiwan in March. "The Taiwan issue has brought about a heightened awareness of the region's vulnerabilities," says Singapore's former Prime Minister Lee Kuan Yew (page 57).

The region's flash point is the contested Spratly island chain. Oil claims there have led in the past to tension between China and the Philippines and cur- ntly between Chi- and Vietnam. In April, Vietnam ed an offshore ssion to Cono- in Houston lore for oil is. But Beijing said the area belongs to China and that Crestone Energy Corp. of Denver had rights to it.

Despite China's far-reaching claims, members of the Association of Southeast Asian Nations (ASEAN), now including Vietnam, are loath to form a unified military front for fear of unnecessarily antagonizing Beijing. "It is dangerous of us to talk of China as a threat, as such talk could become a self-fulfilling prophecy," says Lee Lai To, vice-chairman of the Singapore Institute of International Affairs.

That leaves the Southeast Asians with no consensus on how to use the new weapons—or h to overcome mutual distrust. After ye of focusing on internal insurgencies threats, now they are turning outward defend their waters and airspace. "Ev though they [Southeast Asian arsena are modest, they do change the charac of what can happen in the tight airspa and choke points of Southeast Asia," s Patrick Cronin, an Asian arms exp at the National Defense University Washington.

Singapore and Thailand are each b geting about $4 billion for defe spending this fiscal year. Wh Malaysia, the Philippines, Indone and Vietnam are spending less they are also avid consumers

AN F-16 FIGHTER

ilitary hardware. Consider the buy-
spree: flocks of MiG-29s, FA-18 Hor-
, and F-16 Fighting Falcons, a small
raft carrier, dozens of attack heli-
ers and armored combat vehicles,
tens of thousands of missiles and
chers. Next on the region's shopping
are submarines—by one estimate, 20
in the next decade. Such naval pow-
ould give the ASEAN countries the
on to block important shipping lanes.

MON LANGUAGE. To prevent acci-
ts among themselves, the Southeast
ns are building informal networks of
acts among their militaries and in-
gence agencies. Generals, for exam-
exchanged telephone and fax num-
s this year for the first time. Their
t goal is to find a common radio fre-
ncy—and language—to communicate.
t of them make contested claims to
islands of the South China Sea.

hese issues are high on ASEAN'S
nda and that of ASEAN Regional Fo-
, a discussion group for generals.
re has also been a flurry of bilateral
on, such as a mutual-defense pact
ween Australia and Indonesia and
t maneuvers between Thailand and
gapore, combined with U. S. forces.
ritics say these steps are decidedly
lest and don't yet represent a credi-
military deterrent. Singapore in par-
lar is arguing that only a deepened
. military role can stabilize the re-
n internally and protect it from ex-
nal risks. Singapore lets the U. S.
enth Fleet ships and jets use its fa-
ies as a minibase, compensating in
for the loss of Subic Bay and Clark
Force bases in the Philippines. The
ippines still allows regular port calls.
ut Indonesia, Malaysia, and Thai-
d remain wary. "On the one hand,
y say they need a U. S. military
sence," says Edy Prasetyono at the
tre for Strategic & International
dies in Jakarta. "At the same time,
y don't want to see any foreign mil-
y bases on their soil."

Even though Clinton didn't personal-
ddress these issues, U. S. Defense
der Secretary for Policy Walter B.
combe, who accompanied the Presi-
t to South Korea and Japan, later
ng through Southeast Asian capi-
. He's likely to find the Asians are
resisting any deeper military rela-
ship with the U. S. "There is a con-
sus that they have to solve their
n problems," says Alan Dupont of
stralia's Strategic & Defense Stud-
Center. But if there is a flare-up of
sion with China, the consensus could
t. Time again for the Seventh Fleet.

*By Pete Engardio in Singapore and
ri Prasso in New York, with Michael
ri in Jakarta, Frederik Balfour in
noi, and bureau reports*

SINGAPORE'S SENIOR MINISTER ON ASIA'S FUTURE

Former Singapore Prime Minister Lee Kuan Yew is one of Asia's most candid commentators. Recovering from his second angioplasty operation, the 72-year-old Lee shared his views with BUSINESS WEEK *Assistant Managing Editor Robert J. Dowling and Correspondent Pete Engardio.*

Q: *The U. S. is increasingly relied upon to maintain stability in Asia. What is Asia's contribution?*

A: What can an Asian country do? Open up its markets and have a more level playing field to encourage U. S. exports and investments. That involves Americans in the economic transformation of the whole region. In the area of security, Japan and South Korea should carry more of the local costs in their countries, and persuade other countries that it is in their interest to give American forces access to their facilities.

MISSILE TESTS: *Not theater*

Q: *Are China's actions over Taiwan any indication of how it will deal with other regional issues?*

A: Taiwan is seen as a Chinese-Chinese issue. All countries in ASEAN [Association of Southeast Asian Nations] accept the one-China policy and do not consider the cross-straits tensions as international tension. Had there been tension between China and the Philippines, that would be very different.

We have to accept the reality that there is no combination of forces in ASEAN that could stand up to a military confrontation with China. Unless there is an outside force, such as America, there can be no balance in the region. The Taiwan issue has brought about a heightened awareness of the region's vulnerabilities.

Q: *Do you think China miscalculated with its missile tests?*

A: No, I don't think so. No leadership in China will be able to survive if Taiwan moves away and becomes separate. It's too big, too emotional a symbol of national unity. They have given a signal to the U. S., Japan, and Taiwan that they are prepared to fight. They wanted everyone to know that this is important to them. This is not theatrics. It is for real.

Q: *Will the Chinese behave in a similar way in the Spratlys?*

A: That's different. When the Chinese went to Brunei last summer, they said: "We will talk. We will abide by the U. N. Law of the Sea." That was a major commitment made collectively to all ASEAN members. Once you accept the Law of the Sea, then you have certain rules and guidelines. That makes it an international issue, not a China-China issue.

Q: *Is there a payback to the Americans for defending Asia?*

A: America's presence is not altogether altruistic. The amount of leverage the U. S. has enjoyed in negotiations of GATT [General Agreement on Tariffs & Trade] or the WTO [World Trade Organization] is a result of the security and diplomatic role she plays. If America didn't play such a role, she would not have gotten the solid support she has had in East Asia and will continue to have.

Q: *But there's a growing backlash against globalization in the U. S. and other countries.*

A: That is a worldwide phenomenon caused by modern technologies that make jobs so easily transferable. It's not just America that faces this problem. We do, too. Many of the jobs we have been doing are now being relocated to Malaysia or Indonesia.

Q: *Do the shifting signals in Washington's policy concern you?*

A: Asians are fearful. [Former Defense Dept. official] Joseph S. Nye Jr. used the term "strategic ambiguity," and he explained the advantages. Two months later, [the State Dept.'s] Winston Lord said: "Strategic clarity, but tactical ambiguity." We are left wondering what that last extrapolation means. We have to put up with it.

Q: *Are you fundamentally pessimistic?*

A: Some people say I'm a worrier. Would you not worry?

ITALY

FULL STEAM AHEAD FOR DIESEL

Will its pricey jeans and outrageous ads succeed in the U.S.?

Sumo wrestlers kissing. A row of chimpanzees giving the fascist salute. Inflatable naked dolls at a board meeting with a hugely obese CEO. Parents advised that "teaching kids to kill helps them deal directly with reality." When it comes to outrageous advertising, Italy's Renzo Rosso wrote the book. "At first people thought we were crazy, but to make good ads you've got to take risks," says Rosso, the chief of Europe's hottest marketer of blue jeans.

Clearly the 41-year-old Rosso is on to something with his campaign, which pushes to the outer limits the offbeat approach of early ads by fellow-Italian apparel maker Benetton. From just $9 million in sales in 1985, Diesel last year sold $350 million worth of jeans, sweat shirts, and T-shirts, while profits reached $35 million. The jeans come in models from skin-tight designs to flares. European teens love the ads and the apparel, which is reminiscent of the 1960s and commands high prices: Jeans start at $89.

SHOWCASE. Rosso wants to use the same formula to push up annual U.S. sales from $15 million now to $100 million by 1999. Diesel apparel is already available in chains like Macy's, but Rosso plans to widen distribution by opening some 100 directly owned Diesel stores in the next four years. In March, the first Diesel megastore in the U.S., a cavernous two-story showcase replete with a coffee bar and full-time deejay, was inaugurated on New York's Lexington Avenue. The grand opening in-[illegible]d miniskirted models dancing in [illegible] windows and an all-night party for [illegible]eople.

[illegible] says the store is ringing up [illegible]$30,000 daily, and he plans open-[illegible] in San Francisco and Miami next [illegible]. But skeptics are already wondering how far Diesel can go in the U.S. The spectacular Manhattan store, situated near Bloomingdale's, "gets an A for visual design," says Alan Millstein, a fashion consultant and editor of the *Fashion Network Report*. "But the merchandise is a disaster. Europeans don't understand the American market." Millstein says Diesel jeans and apparel may sell in rich New York but won't find a market in middle America, where moderately priced apparel from Gap and Urban Outfitters sells briskly. And Levi Strauss & Co. is into retail, too: One Manhattan store is opposite Diesel. Diesel executives are not concerned, saying their shoppers want a total fash[illegible] look, not basic apparel.

DREAMING Rosso (left) wants to storm the U.S. by opening 100 directly owned Diesel stores

Diesel's ad tactics could be a probl[illegible] Its prankish campaigns have not alw[illegible] had the desired effect among politic[illegible] correct or puritanical Americans. Th[illegible] years ago the company had to wi[illegible] draw from the U.S. a series of satir[illegible] ads that applauded smoking and [illegible] ownership with slogans such as: "[illegible] cigarettes a day will give you that s[illegible] cough and win you new friends." [illegible] marketing director Maurizio Marchi[illegible] who concocts the ads in-house, still [illegible] fends that 1993 campaign, maintain[illegible] that "you're never going to get smok[illegible] to quit by telling them off, so you mi[illegible] as well make fun of them."

Although the smoking [illegible] are history, Diesel is s[illegible] running unorthodox adv[illegible] tising on MTV and in pu[illegible] cations such as *Wi[illegible]* *Rolling Stone*, *Vibe*, [illegible] *tails*, and the gay ma[illegible] zine *Out*. In the l[illegible] term, say industry ins[illegible] ers, Diesel might h[illegible] to tone down its ca[illegible] paigns as it goes afte[illegible] broader market. "T[illegible] will never happen," [illegible] jects Rosso, who s[illegible] his ads reflect [illegible] essence of Diesel's [illegible] reverent youth [illegible] ture. At the Mol[illegible] na headquarters [illegible] average age of [illegible] ployees is 25, exe[illegible] tives sport should[illegible] length hair and [illegible] three-day stubb[illegible] and the design s[illegible] holds its meetin[illegible] at the in-house [illegible] fee bar. "The Die[illegible] style is my lifesty[illegible] says Rosso, w[illegible] rides to work o[illegible] Ducati Monster motorcycle and list[illegible] to heavy metal music.

A native of the nearby farming to[illegible] of Brugine, Rosso joined Diesel's par[illegible] company as a lowly supervisor in [illegible] 1970s. Diesel then was a tiny produ[illegible] of sportswear for other labels. Work[illegible] his way to the top, in 1985 Ro[illegible] bought out the old owners and reb[illegible] the Diesel brand from scratch. [illegible] Diesel's sole owner, Rosso has certai[illegible] come a long way from his humble [illegible] gins. Now he has to prove his mix[illegible] off-the-wall marketing and hip fashio[illegible] a formula for the long haul.

By Silvia Sansoni in Molve

IN 1810, we began PROTECTING PEOPLE from FIRE. IN 1930, it was CROP DAMAGE. TODAY, it's MISPERCEPTIONS.

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MANAGED DISABILITY

Over the years, we've innovated products to protect our customers from practically everything. Including the misperceptions of a disability.

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TED BY STANLEY REED

ENEZUELA: AN OVERNIGHT CONVERSION O THE FREE MARKET

hen President Rafael Caldera announced a package of free-market reform measures on Apr. 15, many Venezuelans could be forgiven for thinking they were ning to the wrong President. Since taking power in ear-994, the populist Caldera has hobbled the economy with ange and price controls and other government interven- But a protracted economic crisis, deepened by the failure s policies, has left him no choice but to try to unshackle ezuela's economy. "This is one country that tried to turn the clock and realized it wouldn't work," says Suhas L. kar, co-head of emerging-market eco-ics at investment banker CS First on.

aldera's flip-flop should send a crucial sage to the rest of Latin America as Signs of a backlash against the free ket have been appearing in the region, Argentine riots against provincial ding cuts to Mexico's curbs on foreign ers in petrochemical privatizations. But lera's forced about-face is a warning Latin problems can't be solved by re-ing to discredited statism.

US TEST. Caldera's key moves, after ths of tense negotiations with the In-ational Monetary Fund and World Bank, include pledges emove tight controls on currency and interest rates that scared off investors. He also says he will gradually lift controls, raise value-added tax rates to narrow the get deficit, and slash gasoline-price subsidies that have costing $680 million annually. In return, the IMF is ex-ed to pledge a standby loan of around $2.5 billion, with tional support from the World Bank and Inter-American elopment Bank.

ome analysts remain skeptical of Caldera's free-market ersion. One litmus test will be his willingness to make ful spending cuts if the reforms initially brake the economy and shrink tax revenues, as seems likely. Another worry is the risk that rising interest rates will further weaken already battered banks. Investors will be watching for signs of Caldera's determination to push ahead with often delayed privatizations of major state-run concerns, including power companies and aluminum producers, and the sale of the government's remaining 49% stake, worth an estimated $1.5 billion, in telephone company CANTV.

CALDERA: *His populism flopped*

EAT HIS WORDS. The turnabout is requiring Caldera, 80, to eat quite a few of his own words. While he has long vowed never to go to the IMF "on bended knee," the IMF hung tough on conditions such as freeing the bolivar and cutting gasoline subsidies. Gasoline price hikes were the issue that touched off bloody riots in 1989 and derailed former President Carlos Andrés Pérez' previous attempt at market reforms.

There will almost certainly be protests against Caldera's reform measures. With strikes for higher wages already under way, the easing of price controls may stir more social unrest by pushing inflation to a 100% annual rate in the short term, up from 57% last year. Caldera is betting, though, on a shift in public attitudes since 1989. With the country now in its fourth year of recession, most Venezuelans appear to have become convinced that a state-led economy no longer works.

In other Latin American countries, despite protests, market-based policies have gathered considerable support, too. "The real significance of 1995 was not the Mexican peso crisis," says Robert J. Pelosky Jr., chief Latin American strategist at Morgan Stanley & Co., "but that reforms in Latin America took their toughest blow and are managing to go forward." Venezuela could add important momentum.

By Jane Knight in Caracas and John Pearson in New York

GLOBAL WRAPUP

IT A FIREBRAND

Cyril Ramaphosa, the firebrand for-er union leader and secretary-gener-of the African National Congress, is ving up his parliament seat to join uth Africa's biggest black business. will become deputy chairman of ew Africa Investments Ltd. (NAIL). s first task will be to complete the al for the controlling stake in John-es Industrial Corp., a holding com-ny with big media stakes that giant nglo American Corp. wants to sell to black-owned buyer.

Although he's moving to the private sector, Ramaphosa, 43, will still play a key political role. He will retain his ANC job for at least the next few months, and the Johnnic deal, worth perhaps $1 billion, would be the most significant transfer of assets to black control. But Ramaphosa is probably conceding the succession to President Nelson Mandela to Deputy President Thabo Mbeki at the end of Mandela's term in 1999.

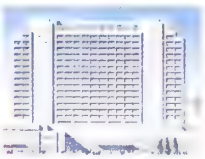
A DEATH IN THAILAND

▶ The risks of doing business in Thailand were recently underscored when Saengchai Sunthornwat, director of Mass Communication Organization of Thailand (MCOT), was shot dead by a motorcycle-riding gunman. The police suspect the killing was related to the executive's activities at MCOT, which owns two Thai television channels. Investigators think that he may have been killed in revenge for recent layoffs or perhaps in retaliation for canceling shows on the channels. There are said to be more than 1,000 professional assassins in Thailand, charging $2,000 to $4,000 per hit.

In the business environment of Asia,
there is one way to meet with success.

It must be Shangri-

Pacific Palisades Hotel
Vancouver, Canada


Shangri-La Hotel
Beihai, China

Shangri-La Hotel
Beijing, China

China World Hotel
Beijing, China

Traders Hotel
Beijing, China

Shangri-L
Changchu

Shangri-La Hotel Resort
Tanjung Bidara, Lao

Island Shangri-La
Hong Kong

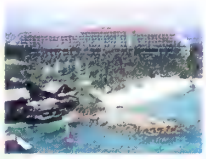
Kowloon Shangri-La
Hong Kong

Bali Dynasty Resort
Bali, Indonesia

Shangri-La Hotel
Jakarta, Indonesia

Shangri-L
Surabaya, I

Traders Hotel
Yangon, Myanmar


Shangri-La's Mactan Island
Resort, Cebu, Philippines

Shangri-La's Edsa Plaza Hotel
Manila, Philippines

Shangri-La Hotel
Manila, Philippines

Traders
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La Hotel
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Portman Shangri-La
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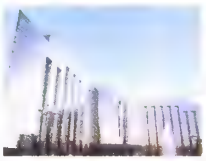
Traders Hotel
Shenyang, China*

Shangri-La Hotel
Shenzhen, China



Shangri-La Golden Flower
Xian, China

Fiji Mocambo
Nadi, Fiji

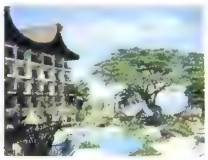
aniung Aru Resort
balu, Malaysia

Shangri-La's Rasa Ria Resort
Kota Kinabalu, Malaysia*

Shangri-La Hotel
Kuala Lumpur, Malaysia

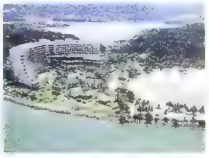
Shangri-La Hotel
Penang, Malaysia

Shangri-La's Golden Sands
Resort, Penang, Malaysia



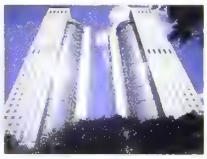
Shangri-La's Rasa Sayang
Resort, Penang, Malaysia

La Hotel
gapore

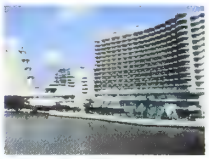


Shangri-La's Rasa Sentosa
Resort, Singapore

Traders Hotel
Singapore



Far Eastern Plaza Hotel
Taipei, Taiwan



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MANAGEMENT

THE VIRTUAL OLYMPICS

How Billy Payne built a $1.7 billion company out of thin air

Billy Payne had just a few minutes before rushing to Atlanta's airport to catch a plane to Greece. There, in ancient Olympia, the chief executive of the Atlanta Olympics would watch the lighting of the torch. But moments before leaving, the real estate lawyer who first dreamed his hometown could host the 1996 Summer Games was poring over last-minute details with a top aide.

Another revenue audit by the U. S. Olympic Committee. A supplier's offer of 90,000 dozen eggs. A surprise $400,000 surcharge in Georgia Power Co.'s rates. Key employees leaving. Too many promises to would-be runners eager to carry the torch on the cross-country trek to Atlanta that begins on Apr. 27. "Tell people to find a graceful way to get out of it," Payne ordered. "That, or we'll be running that torch to the moon."

Details. If Payne, 48, puts together enough of them by July 19, he will have built himself an Olympic Games. Starting with nothing but an inspiration that struck after a 1987 church service, William Porter Payne has, piece by piece, stitched the Atlanta games together like a new quilt. With no financial help from the city or the state, few suitable structures, and skepticism galore, it has been a monumental task.

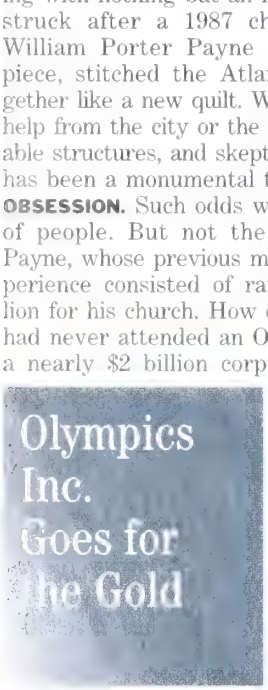
OBSESSION. Such odds would faze a lot of people. But not the indefatigable Payne, whose previous management experience consisted of raising $2.5 million for his church. How did a man who had never attended an Olympics create a nearly $2 billion corporation out of thin air? Credit the wind-up of the church's fund drive and what he calls divine inspiration. "I thought to myself: 'What's next?' And it just hit me," says the gregarious native Atlantan and former University of Georgia football star. Payne's idea became an obsession. He left his law office, took out a second mortgage on his house, and sold T-shirts to raise the $7 million needed to prepare the bid.

Although Payne was completely inexperienced, he wasn't naive. He knew if Atlanta won, he would have to create a virtual corporation—call it Olympics Inc.—from scratch. First, he recruited consultants McKinsey & Co. to help structure the Atlanta Committee for the Olympic Games (ACOG) and rough out a budget that would later reach $1.7 billion—$515 million of which would go toward building 12 facilities and an Olympic village. By contrast, the 1984 Los Angeles games' budget, also privately funded, totaled $546 million, required little construction, and returned $223 million to the U. S. Olympic Committee and Los Angeles amateur athletics groups.

From the start, it was clear ACOG would have to do without government money. Even before Atlanta won the bid in September, 1990, Atlanta's then-Mayor Maynard Jackson told Payne not to expect help. To avoid risking the debacle of the 1976 Montreal Olympics—when local taxpayers were stuck with a $1 billion bill—Atlanta city officials pointed to a longstanding state constitutional provi-

sion barring the city from signing p vate contracts that would bind succee ing city councils. This meant that, unli Montreal, Seoul, and Barcelona—whe governments underwrote the games the nonprofit ACOG would bear the ris If problems developed, ACOG's creditor would be on the hook.

PAYING THE COPS. Indeed, rather th offering money, Atlanta is billing AC It matters little that locals will net mo of the games' estimated $5.1 billi windfall and the free use of several ne structures: Atlanta is charging AC $9.5 million for extra police and sanit tion, the first city to do so. The lack support shocked many. "Every time w dealt with them, I felt dirty," says a ACOG source.



FEB. 8, 1987 Atlanta lawyer Billy Payne forms a team to bid on the 1996 Summer Olympics and begins seeking financial support.

SEPT. 18, 1990 Atlanta wins. Without government aid, the Atlanta Committee for the Olympic Games (ACOG) will have to be self-financing.

JAN. 22, 1992 ACOG secures a $300 million bank line of credit from NationsBank that will help it organize and run the games.

FEB. 2, 1992 Coca-Cola the first worldwide spor By July, 1996, sponsorship revenues shoul hit $540 millio

From early on, Payne faced constant pressure to find cash. Although he had coaxed an $8 million credit line from Atlanta banks early on, that wasn't enough once the city won the bid. So in March, 1991, Payne named Atlanta banker A. D. Frazier Jr. ACOG's chief operating officer and asked him to go for the gold.

There was just one problem: Since ACOG had no assets, banks were leery. In January, 1992, Frazier's persistence—not to mention his idea to buy a custom "games-cancellation" insurance policy from a group anchored by Lloyd's of London—secured ACOG a $300 million line of credit from NationsBank, Frazier's former employer.

With financing in place, Payne and Frazier could focus on revenue. ACOG's budget would eventually grow to $540 million in sponsorship revenue, $560 million in broadcast rights, $422 million from the sale of up to 10 million tickets, and $184 million from merchandising and other items. Payne needed every penny. In addition to the $515 million in construction, major expenses included $224 million for computer technology and $116 million for broadcasting. The original plan for a $120 million profit—to be donated to amateur athletics—was soon scrapped.

Cash aside, ACOG couldn't make it to the finish line without a top management team heading 13 units ranging from construction to security. So Payne enlisted recruiting agency Heidrick & Struggles Inc. Patrick S. Pittard, a Heidrick & Struggles managing partner, says his job was to scour the country for prospects; Payne's job was to "burn them with the flame." In mid-1992, the full-time paid staff was 200; by March, 1994, it topped 1,600.

To lure prospects, ACOG offered competitive salaries and, in Payne's words, "a once-in-a-lifetime chance to be part of something brought together solely for goodness." Some recruits: as managing director for sports, David L. Maggard, a former Olympic discus thrower and University of Miami athletic director, and as sponsorship-sales chief, William H. McCahan, who had retired early from a top sales job at IBM and was persuaded to sign on by Payne.

CHEAP TV RIGHTS. The teams quickly took on their leaders' personalities. With venue-management team chief Doug Arnott going six weeks without seeing his family in New England, his youth-dominated group had the feel of a political campaign. Maggard ran the sports department's meetings as if they were locker-room strategy sessions. And McCahan's sales force dressed IBM-style—in suits—and focused on big deals.

Yet every detail went under Payne's microscope. For the first few years, he personally approved every ACOG expenditure. He held up production of ticket brochures to change the typeface. He scolded female employees for wearing sleeveless blouses. Even after bringing in Frazier, Payne couldn't let go. Eventually, he had to. In April, 1993, Payne had his second heart-bypass surgery (his first was at age 34), and Frazier ran ACOG for a month.

Unlike Los Angeles, Atlanta had to erect several structures, including the $150 million Olympic Stadium and the aquatics and rowing centers. As ground was broken for the stadium in July, 1993, the need for cash became acute. That forced Payne to sell off the domestic TV rights to NBC Inc. for $456 million, far below the $600 million he once forecast. Richard

Prospective hires were promised "a once-in-a-lifetime chance to be part of something brought together solely for goodness"

PAYNE VOWED NOT TO COST ATLANTA TAXPAYERS A PENNY

ut Payne, with full knowledge of risks involved, pledged from the t that the games would cost taxers nothing. And with the law in ef- Atlanta had nothing to lose politi- by staying on the sidelines. Susan se Langford, Atlanta's director of mpic coordination, says the city is ly holding Payne to his promise. says the $5.1 billion economic effect exaggerated" and will come only r a long period of time."

ortunately, Atlanta's private sector picked up the slack. Among the local businesses spending up to $40 million on sponsorships are Coca-Cola, Home Depot, United Parcel Service, and Delta Air Lines.

Y 10, 3
ndbreaking he stadium. ears, Payne's spend ion build- nues and an illage.

JULY 27, 1993
ACOG sells the U.S. TV rights to NBC for $456 million. International Olympic Committee later criticizes ACOG for taking such a low price.

NOV. 4, 1994
Engraved bricks are sold to public for $35 each to finance $18 million Centennial Olympic Park. Sales fall well below expectations.

MAR. 20, 1995
A lighting structure collapses, killing a worker and raising questions about ACOG's breakneck construction schedule.

APR. 10, 1996
ACOG staff hits 2,850. When the Games start in July, Payne's virtual corporation will oversee 88,209 workers for more than a month.

W. Pound, head of the coordination commission of the International Olympic Committee—which gets a big chunk of the broadcast revenue—says ACOG could have earned far more had it waited until 1996. "They negotiated at the very bottom of the market," he complains. Pound vows the IOC will never again award the games to a city with no government backing, citing ACOG's financial high-wire act and the TV deal.

ACOG's cash crunch, along with Payne's micromanagement, led to a building schedule prone to radical last-minute changes. Take Centennial Olympic Park, an $18 million downtown gathering place Payne dreamed up several months after breaking ground on other construction. Payne thought he could pay for it by selling 750,000 engraved bricks to the public for $35 each. The plan went over like a brick. As of April, only 325,000 have been sold. Although the park will be completed, ACOG is currently short $1.7 million.

Then there is the rowing center at Lake Lanier, which the Fédération Internationale des Sociétés d'Aviron (International Rowing Federation) nixed in late 1993 because it was 60 miles from downtown. So Maggard took officials to Rockdale County, 25 miles southeast of Atlanta, and showed off some flat, red clay at the site of a planned reservoir. The visitors blanched at the dry lot. "It's difficult to sell a rowing venue that has no water," Maggard concedes. The federation reluctantly agreed to go back to Lake Lanier.

BRAVES' NEW WORLD. One still unresolved construction problem concerns Olympic Stadium, which will be handed over free after the games to the Atlanta Fulton County Recreation Authority for use by the Atlanta Braves. The design team recently filed a $6 million lawsuit to recover 46,000 hours of overtime they say resulted from ACOG flip-flopping. They say ACOG first wanted a modern design, then an "urban ballpark," and finally the "nostalgia theme" of classic brick construction. ACOG is countersuing, blaming the designers for cost overruns.

Indeed, the pace of construction appears to be at the root of some of ACOG's building problems. Lawyers for the construction designers admit that the collapse of a lighting structure in March, 1995, that killed a worker resulted from a mathematical error overlooked during the push to meet deadlines. And after a beam collapsed in March at the swimming center, workers, citing safety concerns, stayed off the job for more than three weeks. The ACOG construction director, William J. Moss, disagrees with the contentions, saying the schedule was not a factor in either accident and that ACOG has a remarkable safety record. Although the Los Angeles games had no accidents, it required just one-fifth the construction.

While most of the new venues will be given away after the Games—Centennial Olympic Park to the city, the equestrian center to Rockdale County—much of ACOG's effort will be extinguished with the Olympic flame. As part of their sponsorship deal, three companies—BellSouth, Panasonic, and Scientific-Atlanta—are spending $50 million on a private TV system for journalists, to be dismantled later. To move the masses, ACOG is borrowing more than 1,400 buses from transit systems nationwide.

As the deadline draws near, ACOG's financial cushion is wearing worrisomely thin: It hovers around $30 million, d from $50 million last year. Yet Fra insists that the projection o breakeven Olympics is "bulletpro And the Price Waterhouse accoun firm, hired by the watchdog Metro tan Atlanta Olympic Games Autho forecasts a slim $13 million profit, ing that ticketing and merchandi won't make their targets. That's pa due to the marketing flop of Olyn mascot Izzy and the slower-than pected ticket sales for nonmarc events. It's a close call: On a $1.7 bi budget, a $13 million profit could rounding error.

Some sponsors ACOG's lack of a fi cial safety net has n it too short-term ented. Says Davic D'Alessandro, vice-p ident at John Han Mutual Life Insur Co.: "They're wor about being heralde successful at pulling the games. They c care less about Olympic movement

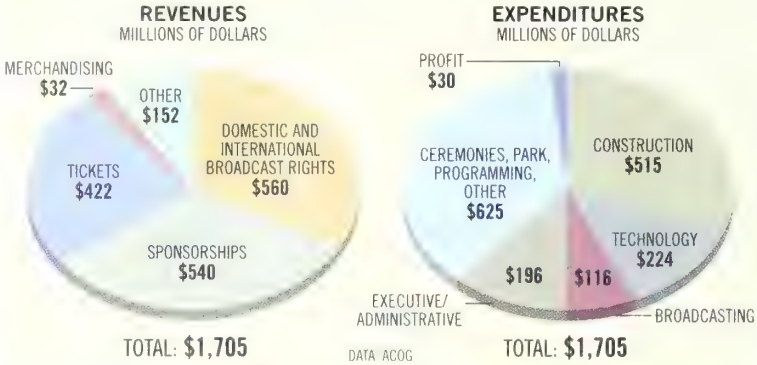
If some unfores crisis leading to m litigation did arise to keep ACOG f making budget, ACOG could—in worst case—be forced to declare b ruptcy. Since ACOG has no outstan loans and plenty of insurance, its pliers and contractors would be the ones at risk. But if, as expected, t are a few crumbs left over, they be donated to amateur athletic gro And Payne will deserve his own me

With just under 100 days to go, A is preparing for the final onslaught. I of the 42,500 volunteers are schedule arrive around July 1, and ACOG will h to train and even house many of th At at the same time, ACOG must k staffers from defecting to new, more cure jobs as the project nears its e

For those who remain, however, showtime. On July 19, 3.2 billion pe worldwide will watch the opening c monies. The games end 17 days la and most of the 88,209 workers leave for good. Payne says he'll ret to the private sector: He ruled out running for public fice. But most Payne-watch think his aw-shucks ver masks a man who may h some trouble giving up spotlight. Sounds as if it m be time for a little more di inspiration.

By David Greising in Atla

A BUDGET OF OLYMPIC PROPORTIONS



DATA: ACOG

With opening ceremonies three months off, ACOG prays no further crises arise: Its financial cushion is worrisomely thin

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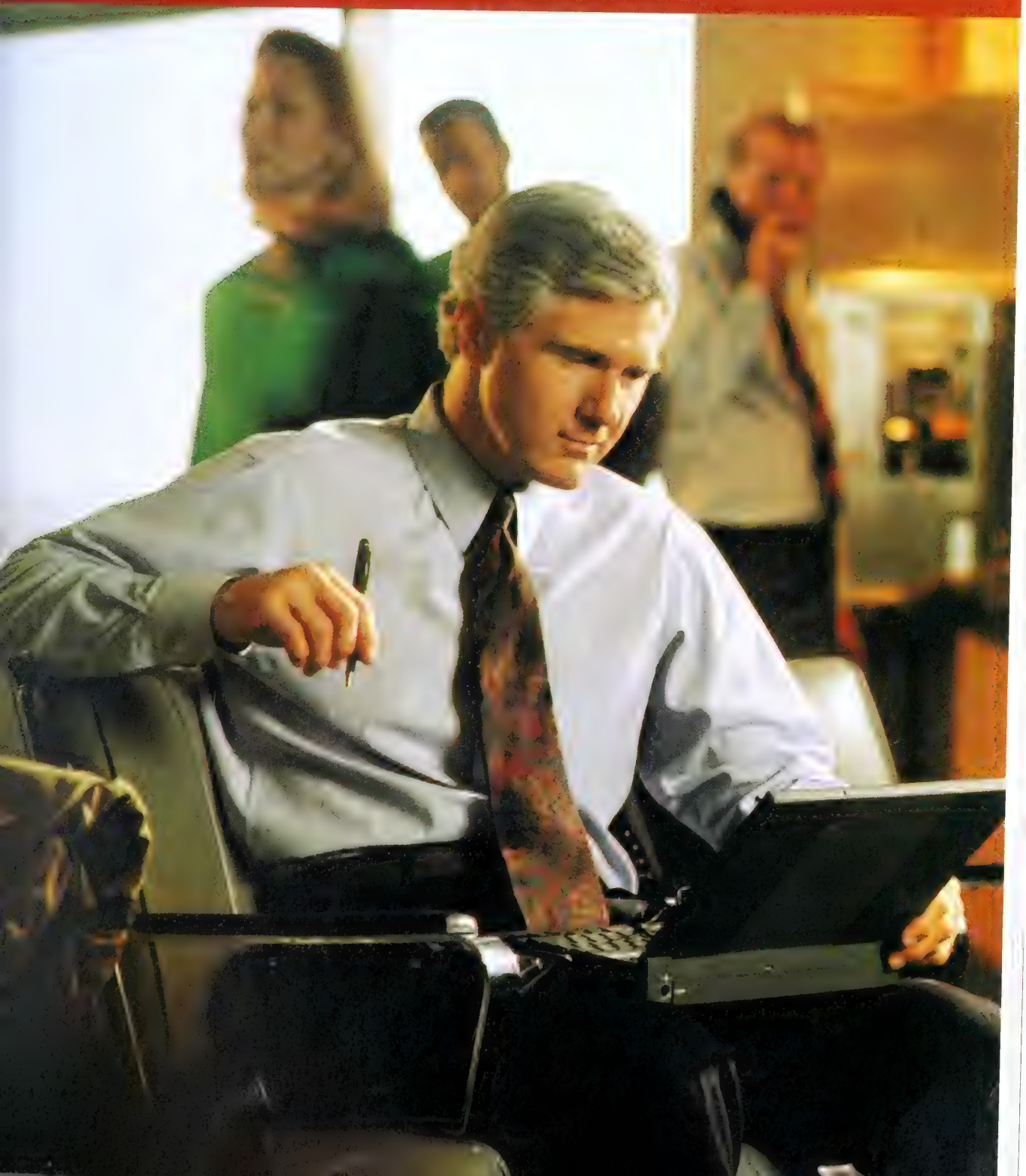
THE FREQUENT TRAVELER



THE FREQUENT TRAVELER

Meeting While Cruising

High Tech on the High Seas

With a parade of spectacular ships coming down the ways, the cruise industry is making it even easier to opt for a meeting at sea. So mammoth are the newcomers that they can carry from 1,700 to 2,600 passengers and they offer a cornucopia of diversions from celebrity lecturers to state-of-the-art spas.

• **Princess Cruises'** 76,500-ton Sun Princess (800-421-1700), complete with a full-time gardener to keep the flora trimmed and watered, was the largest of the six cruise ships put into service in 1995.

• **Royal Caribbean** (800-327-2055) has a double act this year with first the 65,000-ton Splendour of the Seas and then the 73,000-ton Grandeur of the Seas making their debut in the Mediterranean and Caribbean, topped in size by **Carnival's** 101,000-ton Destiny (800-327-9501), which measures nearly the length of three football fields.

• **Costa Cruises'** 70,000-ton Costa Victoria (800-462-6782) will join the cruise flotilla in June.

Leviathans. All in all, the turned-on cruise industry will have launched nearly 30 ships — mostly leviathans larger than the ocean liners of the 1920s and 1930s — in the five-year period between 1995 and 1999. It's a flotilla fit for the 21st century.

The distinction between incentives and meetings has blurred in the 1990's as employers have added hard-nosed seminars and interactive meetings.

The Atrium of Princess Cruises' Sun Princess

But is newer and larger better fo corporate meetings?

Some of the older, smaller ships suc as **Cunard's Sea Goddess I and II** (80 528-6273) and **Seabourn Cruise** Seabourn Pride (800-929-9696) ar standouts for high-end executive mee ings. Charter the whole 100-to-200-pa senger ship. In the mid-size grou which can accommodate 900 to 1,3 passengers, are the **Crystal Cruise** tony Crystal Symphony (310-785-930 and **Holland America's** upsca Veendam (800-426-0327).

Logistics. Not lost on corporat cruise planners amidst the attractio of these floating showcases are the ta angles. On balance, incentives can g down largely as a cost of doing busine while straightforward meetings ar mostly non-deductible. But the distin tion between incentives and meetin has blurred in the 1990s as employe have added hard-nosed seminars an interactive meetings to their fun-an games incentive trips.

For budget watchers, the bottom lin is that with the cruise industry's eno mous capacity, you can cut a deal for shipboard meeting that's irresistibl attractive. And it's one-stop shoppin — an advantage today's busy planne can appreciate. For a listing of trav agencies near you that know the ship dial CLIA's home page on the Interne at http://www.ten-io.com/clia.

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THE FREQUENT TRAVELER

Packing It In

Circling the Globe on Business

For business travelers in the 1990s, packaging three or four cities in one big trip is getting to be the way to save time and money. It could be a spin through the Midwest or the Northeast corridor — or around the Southwest circuit from Phoenix to San Diego, L.A., and San Francisco. Or even London, Frankfurt, Bahrain, Singapore, Jakarta, and Tokyo .

Never has a circle trip been easier, thanks to new and improved round-the-world air service. Just last December, **United Airlines** (800-538-2929) revived the classic Pan Am Flights 001 and 002, which had set the style for circumnavigation until their demise back in 1982.

For globe-trotting travelers, it was good news. One ticket, one airline, same plane all the way around — eastbound or westbound every day.

If you only stop for refueling, it takes about 48 hours or two days to make the trip. But with faxed appointments set up, you can drop in at your overseas offices, see top contacts, and even cut a deal here and there on a 10-day to two-week swing.

It's Phileas Fogg in a flash — not the 80 days it used to require. And something investment bankers at blue-chip firms like Morgan Stanley or Goldman Sachs do with the greatest of global

For business travelers in the 1990s, three or four cities in one big trip is getting to be the way to save time and money.

The healthclub in the Four Seasons Hotel in Tokyo.

Money-saver. In some cases, a global ticket is cheaper than round-tr forays to foreign business cities.

The basic round-the-world fares a $5,019 first class, $3,618 business clas and $2,570 economy class — with som minor variations, depending on the ai line. By comparison, a round tri between New York and London, th European city most frequently visite by American executives, costs $6,70 first class, $4,300 business class, an $2,300 full-fare economy class.

Today, you can book a circle tou through almost any international ai line, from **Continental** (800-231-0856 to **SAS** (800-221-2350). Virtually a have marketing partners that hel smooth the connections and give yo frequent-flier points for the thousand of miles flown.

For example, Continental uses s different airlines — Air India, Alitali Cathay Pacific, Malaysia Airline Singapore, and Thai International — t fill the big gaps in its internationa route map. The U. S. carrier can tak you to Frankfurt, London, Madrid, o Paris and pick you up again in Hon Kong, Osaka, or Tokyo for the tran Pacific leg back home.

But — and here's a catch — to ge the global fare, you can use only tw airlines. That means you have to matc up your business itinerary with the ai lines that best serve the cities you nee to visit.

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With Satellite Pro, you can get affordable CD-ROM and portability in a multimedia notebook. This series offers the advanced features and power usually found in much more expensive machines.

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THE FREQUENT TRAVELER

Let's say you fly on SAS because you like its Euroclass, which combines first and business class, and need to lunch with your Swedish distributor in Copenhagen. For points far beyond Europe, SAS has Australia's **Qantas** (800-227-4500) and **Air New Zealand** (800-262-1234) among its partners.

But you want to stop over in Delhi to see some computer-industry contacts, visit your new plant near Bangkok, and finally see how your joint venture in Japan is going. SAS would call on its other partners — **Thai Airways** (800-426-5204) and United — to fly you through South Asia, up the Pacific Rim, and back to the U.S.

BA'S FLEXIBLE FLIER

A major world player, **British Airways** (800-247-9297) practically blankets the globe with round-the-world itineraries that feature multiple stopovers and side trips "some free, some for a fee," as it tells customers. In tandem with Qantas and **USAir** (800-428-4322), both of which it partly owns, along with United and several other airlines, it offers super-long hauls for $6,899 first class and $5,299 business class. But it also can take you from the U. S. to London, Beijing, Tokyo, Honolulu, L.A., and other U. S. cites for the basic prices.

If you do need to zig and zag for the extra $1,600, you can fly to London, take a side trip in Europe, fly on to Bangkok, Singapore, or Hong Kong, then do Sydney and other cities down under, and finally cross the Pacific to L.A. and other U. S. gateways. The tariff is $6,899 first class and $5,299 business class with an additional fee if you choose to stop in South Africa before going on to Australia.

Friendly Skies. United's 001 begins L.A. and makes stops in Hong Kong, New Delhi, London, and New Yo before returning to L. A. Its 002 h the same itinerary — but goes th other way.

The Taj Palace Inter-Continental in New Delhi.

Never has a circle trip been easier, thanks to new and improved round-the-world air service.

While you travel on the same airlin you fly on four different aircraft, begi ning with a Boeing 757 on the U. transcom segment. For the L. A.-Ho Kong long haul it's a Boeing 747-40 the state-of-the-art jumbo. For th Hong Kong-Delhi and Delhi-Londo legs, the equipment is a wide-bo Boeing 767-300. For London-Ne York you get a look at United's ne Boeing 777, spacious and very use friendly — designed, in fact, aft Boeing and United surveyed passe gers to find out what things were hi on their wish lists.

SINGAPORE SWEETENER

Consistently considered a top carrie **Singapore Airlines** (800-742-3333)offe a flat fare of $5,000 in first class a $3,500 in business class for travel of to 25,000 miles. If your business itine ary is complicated, you can opt for flat fare of $6,200 in first class a $4,375 in business class that allo you a total of 32,000 miles.

To get you around the circui Singapore works with **Swissa** (800-221-4750) and **Delta** (800-22 1212). For example, on the 32,000-mi ticket you could fly out of JFK to Zuric taking Singapore on the first leg Frankfurt and Swissair on the seco leg. Then, you could zip down to Jo'bu on Swissair and then exit aboard Singapore Airlines flight to Singapo In the Southeast Asia business hub, y could fly back and forth on "spokes" Bangkok, Jakarta, Kuala Lumpu Saigon, or Taipei. Finally, you wou fly Singapore to San Francisco a return to JFK on a Delta flight.

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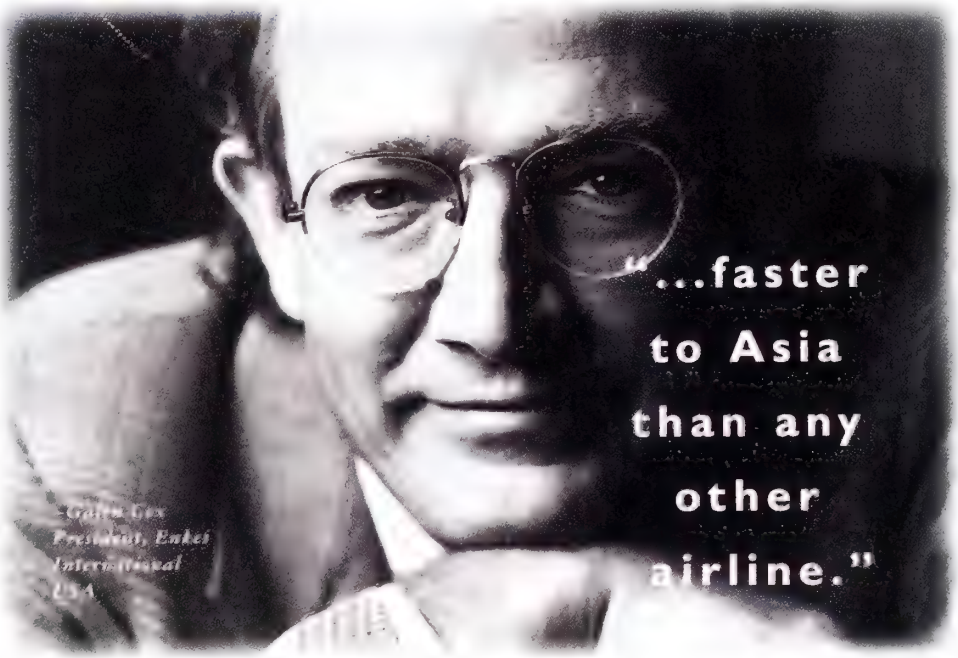
I only ask two things when I fly. How much time can I save? And how comfortable can I be?

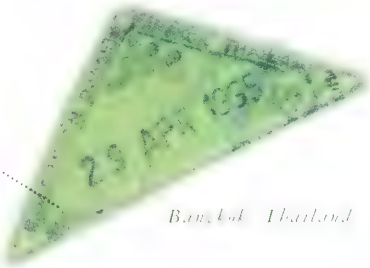
Which is why I like World Business Class™ from Northwest Airlines and KLM. The Northwest hub in Detroit helps me connect to Asia up to five hours faster than other airlines.

And they give business flyers like me more space. They've added legroom, reclined the seats further, and that really helps, sleeping-wise. More than adequate for someone my size, and I'm six three.



My business philosophy is no big secret. You have to stay one step ahead. You've got to continually look for advantage.

And time-travel–saving several hours or even half a day–is a big one.



Bangkok, Thailand

WORLDWIDE RELIABILITY

Published airline schedules in effect on January 8, 1996 for the week of May 13-19, and are based on eastbound-westbound averages. Schedules are based on information from the Official Airline Guide. ©1996 Northwest Airlines, Inc. Northwest recycles over 5000 pairs of lost & unclaimed glasses ♻

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THE FREQUENT TRAVELER

Travel Updates

AMERICAN ADVANTAGE

In the battle of the business classes, **American Airlines** (800-433-7300) has staked $400 million to set itself off from the rest of the pack. Like competitors the carrier has been listening to frequent travelers — and getting the message.

"They want more comfort and personal space and more flexibility and freedom in their meal and entertainment options, particularly during long hauls to foreign business centers," as American Airlines president Donald J. Carty puts it.

So, by next month all the carrier's flights to Europe, Latin America, and Japan will provide business-class seats with 50 inches rather than just 40 between rows, chair wings as a headrest for snoozing or sleeping, and an adjustable lumbar support for comfort. There's also a Sony Video Walkman you can position any way you want — with a choice of first-run movies, not the tired rerun variety. And you'll be able to snack anytime as well as enjoy gourmet meals (which will offer special entrees "inspired" by the flight's destinations) and wolf down an express breakfast if you prefer to sleep longer.

All these goodies come atop American's recent opening of office-oriented arrival lounges in London, Manchester, Birmingham, Paris, Frankfurt, and Stockholm where you can freshen up or conduct business before heading into the city. Note, too, that business-class passengers on international flights have the free run of American's Admirals Clubs. And for flying business class you get a 25 mileage bonus if you're an Americ AAdvantage member.

At the Disney campus... you can unlock hidden talents.

On transcontinental flights, American Airlines provides a video Walkman.

THE DISNEY SPIN ON LEARNING

It's not a place to bone up on TQM study the fine art of downsizing. But t just-opened Disney Institute puts a ne spin on going back to school by turni education into entertainment.

It's the latest inspiration of Disn World's imagineers — and a person project of Disney chairman Micha Eisner who visited Chautauqua, the cu tural think tank near Buffalo, back the 1980s and liked what he saw.

At the Disney campus, a charming v lage of pastel-colored, midwestern-sty structures in a sylvan setting (including golf course), you can unlock hidden ta ents — gardening, cartooning, cookin dancing, hosting a TV show — that co porate life may have suppressed in yo Not bad as a stress reliever, if you're the booming Orlando area on busine and want to tack on a day or so recharge your batteries.

With some 80 courses to choose fro — mostly two-hour sessions — ar celebrities such as architect Micha Graves and Hollywood idol And Garcia on hand to spice up the pr ceedings, it's unlikely you won't fi something that strikes your fancy. T rock-climbing to develop your tea spirit. Best of all — if all the brain foo bores you — spend a day at the sple diferous 38,000-sq.-ft. sports facility ar spa (407-827-4455), one of the most co

"Think India. Think Taj."

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TAJ LEISURE HOTELS: idyllic Beach Resorts, the majesty of genuine Palaces, intimate Garden Retreats in beautiful, natural surroundings and delightful Cultural Centre Hotels in places with historic attractions."

Lake Palace, Udaipur: unimaginably opulent, uniquely tranquil

TAJ LUXURY HOTELS: The Taj Mahal Hotel, Bombay; The Taj Mahal Hotel, New Delhi; Taj Palace Hotel, New Delhi; Taj Bengal, Calcutta, The Taj West End, Bangalore; Taj Coromandel, Madras; The Taj Mahal Hotel, Lucknow; Taj Samudra, Colombo.

TAJ RESIDENCY HOTELS: Taj Residency, Bangalore; Taj Residency, Hyderabad; Taj Residency, Visakhapatnam; Taj Residency, Aurangabad; Taj Residency, Ernakulam; Taj Residency, Indore.

TAJ PALACE HOTELS: Rambagh Palace, Jaipur; Jai Mahal Palace, Jaipur; Lake Palace, Udaipur.

TAJ RESORT HOTELS: The Aguada Hermitage, Goa; Fort Aguada Beach Resort, Goa; Taj Holiday Village, Goa; Fisherman's Cove, Madras; Em-boo-dhu Fin-olhu Island Resort, Maldives.

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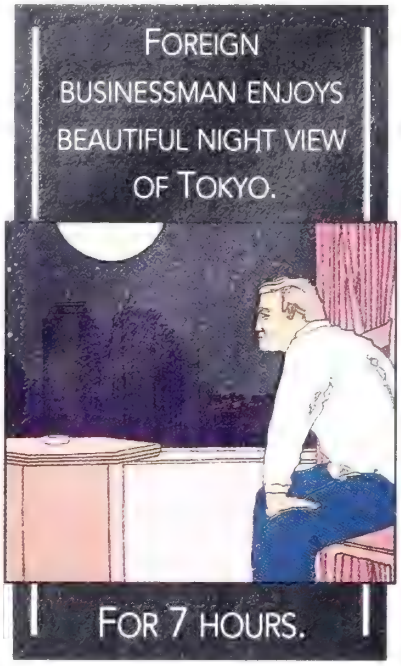

Poor guy. Jet lag hit him hard. Imagine how he felt the next day.

What can he do? Head for the Hotel Okura and enroll in our unique Jet Lag Plan. Specially designed to get jet laggers up on their feet and raring to go, it includes a Light Box to help put your body's clock back on schedule, a Health Club workout and Jet Bath, Relaxation Videos, a Body Sonic Massage, your choice of pillows to help you sleep better (we'll even remember your favorite for your next visit), and special breakfast and dinner suggestions for extra energy.

The Jet Lag Plan is only [illegible] extra per day, or free for members of the Okura Club International, our special program for frequent guests. To receive a free brochure, simply mail your name and address to Hotel Okura, Public Relations Office, 2-10-4 Toranomon, Minato-ku, Tokyo 105, Japan, or fax to 3-3582-3707.

Hotel Okura
TOKYO

plete in the nation. You'll emerge thinner, if not necessarily smarter.

Though the institute encourages a three-day stay, villa and meals included, for $785 per person, you can buy a day package for as little as $49 — with meals and other extras on you. For sheer convenience, stay 10 minutes away at the Disney Resorts' whimsically designed Swan or Dolphin hotels, which host major meetings and conventions. Both are only a short walk from the national showcases, upscale restaurants and corporate pavilions at Epcot where learning is fun again.

TRAVEL TOOLS

How to make business trips easier? Take the office with you — with the help of these three tools.

Computer Carrier. There's more to buying a carrying case for a notebook computer than judging its good looks and long-term sturdiness. Does it have a "suspension system" to prevent breakage? According to a market researcher that tracks computers and electronics, travel damage is the No.1 reason why on-the-road computer users buy — or have to buy — new portables.

So, for protection, shop for one of the cases with little straps set an inch or two above the bottom of the case that can cushion your computer if you accidentally drop it. Try one of the shock-absorbing models sold by Port (800-242-3133). The company even has a backpack-style carrier if that's your preference.

Mobile Drawer. With a nod to the versatility of Swiss Army knives, **Magellan's Multi Worker** (800-962-4943, $16.85) is a major roa resource, despite its 4.5-inch lengt and 5-ounce weight. The lilliputia desk drawer includes a pencil sharp ener, hole punch, tape measure, sta pler, staple remover, carton opene and ballpoint pen — as well as tiny compartment for holding pape clips and extra staples.

Deals on Wheels. Luggage yo can pull through terminals is star dard issue now for frequent flier But the company that practicall invented the breed — **Travelpr** (800-741-7471) — now has BusinessPlus Rollaboard suitcas in black, green, and navy that dou bles as an "office on wheels." Th fold-down flap turns into a desklik shelf and provides access to a fil and office-supply compartmen Tucked inside Rollaboard is removable pouch for carrying mos portable computers. A compromis but handy.

PORTABLE WORK

If you've succumbed and bought laptop computer, join the crowc Sales of portables, mostly light weight notebooks (about si pounds), are likely to top five mi lion units this year, up from 4.1 mi lion in 1995, according to Kimba Brown, vice-president of mobil computing at Dataquest Inc., leading market research firm tha tracks information technology. An roughly 90% of the machines ar purchased by business travelers.

There's even a fairly big marke for replacements of machines tha have sustained damage on the roac usually from dropping. "The No. cause for turning in your old on

nd buying a new one," says Brown, "is a roken screen."

Who are the biggest players in dozens computer companies that sell portables? he top three sellers according to ataquest, are Toshiba (which does not ake desktop models), Compaq, and IBM, llowed by Apple, NEC, Dell, Texas struments, Zenith, AST, and AT&T.

Prices range from $3,500 to $7,500. But any business travelers settle for excelnt machines in the $2,500 to $3,000 nge, that do just what you want them to without the bells and whistles.

Should you wait for the next technological breakthrough before buying? "The esigns will keep changing — with new atures, one after another," says Brown. Don't put off your purchase. When you ink you need a new one, go for it."

COPING WITH JET LAG

he hottest "cure" for jet lag these days melatonin, an over-the-counter ietary drug that mimics the body's wn hormonal melatonin. It helps you to sleep on long flights — without e hangovers that often accompany se of sleeping pills — and also helps our internal clock adjust to foreign me zones. Some executive travelers wear by it. But note that the quality of e melatonin you may purchase can ary greatly, in part because the FDA as yet to run tests on the hormone and ive its blessing.

BRINGING PAN AM BACK

harles Cobb, who once headed the .S. Travel and Tourism Administration, no fool. He bought the Pan Am name – an airline icon as admired as the ame Coke — when the "financially roubled" carrier folded. Now, while ther carriers exploit its old routes (see Circling the Globe on Business,"), he has teamed up with Martin Shugrue, the former chairman of Pan Am, to get the airline airborne again by this summer at the latest. And their strategy just may work.

The Disney Institute, in Orlando, Florida.

The hottest "cure" for jet lag these days is melatonin, an over-the-counter dietary drug.

Initially, Pan Am plans to operate as a low-fare, point-to-point airline — no costly hub with spokes — that will ferry passengers between JFK and Chicago, Los Angeles, Miami, and San Francisco with San Juan, Puerto Rico, a possible fifth city. What Pan Am's executive duo have identified is an unfilled service niche: the lack of close feeder connections between small to medium-size foreign-flag carriers like Ireland's Aer Lingus and Icelandair — most of them based in JFK's International Arrivals Building — and U.S. domestic airlines. British Airways? It has close links with USAir. Lufthansa? Its partner is United.

The new Pan Am's service, according to President and Chief Executive Officer Shugrue, will be called the Pan Am Alliance. So far, at least six foreign carriers have signed on, some with a code-sharing arrangement. Pan Am, on its part, will offer first and coach service on eight Airbus 300 and similar aircraft — a "real airline," as Shugrue put it, with "food you can eat." And it wouldn't surprise anyone to see a revival of Pan Am's WorldPass frequent flier program.

On the near horizon, if Shugrue's strategy succeeds: international routes that would take business travelers down more than memory lane. With "one of the best, most well-known brand names in the world," the reconstituted Pan Am could snare global traffic that has escaped some other U. S. carriers with a low profile abroad.

This text was written by Paul Burnham Finney of Finlyn Communications, Inc. Mr. Finney is a well-known journalist with expertise in worldwide business travel.

Photo © 1996 The Walt Disney Company

People, Places,

JIMMY CARTER; PRESIDENT AND PEACEMAKER. FEW PEOPLE EMBODY AMERICAN VALUES AND GEORGIAN SPIRIT MORE THAN THIS SOFT SPOKEN LEADER FROM PLAINS, GEORGIA. AS A RESULT OF HIS DIPLOMACY IN HAITI AND COOLING NUCLEAR TENSIONS IN KOREA, *USA TODAY* CALLED MR. CARTER, "A DRAMATIC REMINDER THAT DIFFICULT GOALS CAN BE REACHED WITH PERSISTENCE AND DETERMINATION." THE CARTER CENTER IN ATLANTA IS A TRIBUTE TO HIS INITIATIVES OF WORLD PEACE.

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FAIRWAYS THAT TWIST THROUGH TOWE
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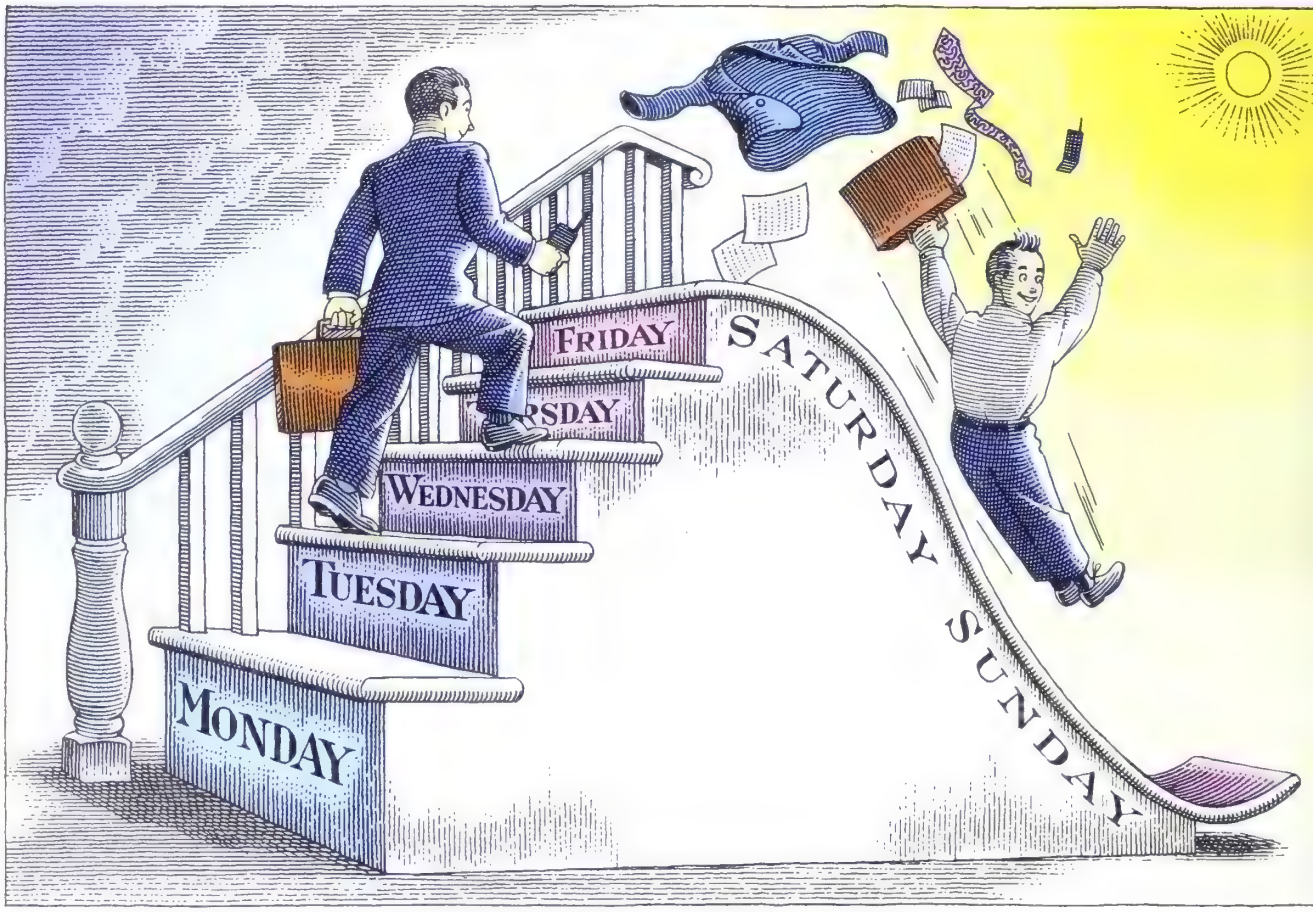
Georgia Department of Industry, Trade & Tourism

IF WE CAN MAKE MONDAY BEARABLE, IMAGINE WHAT WE CAN DO WITH SATURDAY AND SUNDAY.



It's no accident that they color Mondays blue. Or that Courtyard by Marriott has a certain gift for brightening them.

We're the hotel designed by business travelers. So even on that least beloved day of the work week, you'll find a spacious, comfortable room, mini-gym, swimming pool, [illegible]ool, in-room coffee – everything, in short, [illegible]d to relax and retool for the day ahead.

Now, imagine how much more fun all that becom[illegible] on weekends – when the only thing you're getting ready f[illegible] is more relaxation. Especially when you get to enjoy it a[illegible] at great weekend rates. For reservations, call your trav[illegible] agent or **1-800-321-2211**. *You'll leave with tw[illegible] very worthwhile souvenirs: a great weeken[illegible] and the courage to face Monday all over agai[illegible]*

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BusinessWeek

Beyond news. Intelligence

PHARMACIST LEATHERWOOD: *Her lawyers had "a big win." She didn't*

CLASS ACTIONS

CAKE FOR LAWYERS, CRUMBS FOR CLIENTS

The courts crack down on questionable mass settlements

Sharlena Leatherwood, owner of North Oak Pharmacy in Kansas City, Mo., figured there was strength in numbers. So she joined with thousands of pharmacy owners to charge that illegal pricing by drugmakers was driving her and her colleagues out of business. The group pinned its hopes on a class action seeking to bar drug companies from offering discounts to large groups such as HMOs, hospitals, and mail-order sellers, while small customers paid full price.

The pharmacists' lawyers settled the case against 15 of the 22 defendants for $408 million in January. But the deal did nothing to halt the drugmakers' pricing practices. Leatherwood felt betrayed. A consortium of 20 to 30 plaintiffs' law firms would split a pot of up to $122 million, while she would get a check for about $10,000—and a ticket to possible extinction. "The attorneys didn't consider the interests of the class. It was a big win for them," she fumes.

After 3,371 pharmacists and chains objected to the proposed settlement, U.S. District Judge Charles P. Kocoras in Chicago threw it out on Apr. 4 for fering inadequate protection agair price discrimination. His decision serv notice that the judiciary is now scru nizing class-action settlements mo closely (table). It also highlighted growing problem: that companies a plaintiffs' lawyers increasingly mana litigation in a way that enriches the torneys while selling the alleged v tims short. "In some of these cases, y have, if not actual collusion betwe plaintiffs' and defense lawyers, then nonadversarial negotiation that is r being conducted at arm's length," sa Columbia University law professor Jo C. Coffee.

FREE VIDEO. Judges, faced with ove whelming caseloads, until recently ru ber-stamped most agreements. B growing outrage about inadequate, u fair settlements is forcing them into tion. Indeed, over the past year, judg have discarded several big deals. La spring, a federal judge threw out a se tlement involving 680,000 owners Ford Motor Co.'s Bronco II who claim that the vehicle tended to roll over. T plan: Plaintiffs would get an instru tional video and a sun-visor warni sticker, while their lawyers took hor $4 million. Declaring the value of t settlement "effectively zero," the jud said the deal "could possibly be the r sult of collusion."

And last year, a Philadelphia feder appeals court overturned a settlement which owners of General Motors Co pickups, allegedly prone to ignite up side impact, got $1,000 vouchers to b new vehicles. Judges scorned the agre ment, calling it "a GM sales promoti device." Plaintiffs' attorneys from firms initially won $9.5 million in fees

In each of these cases, lawyers f both sides deny collusion. Plaintiffs'

A Good Deal for Whom?

CLASS ACTION SETTLEMENTS THAT HAVE BEEN TOSSED

DRUGMAKERS On Apr. 4, a federal judge threw out a $408 million settlement in a pharmacist antitrust suit against drug manufacturers. Plaintiffs would have received about $10,000 per pharmacy; attorneys would have split a pot of up to $122 million.

FORD BRONCO II A proposed deal called for vehicle owners to get warning stickers and safety information. The attorneys' take: $4 million. The judge slammed both sides for potential collusion.

PENDING SETTLEMENTS THAT COULD BE REJECTED

ASBESTOS A consortium of 20 asbestos defendants reached a $1.3 billion settlement to cover future injuries, but critics condemn it as inadequate. A federal appeals court is expected to rule later this year.

TOBACCO Liggett Group's settlement of the so-called Castano class action could be challenged. The Public Citizen Litigation Group in Washington, D.C., has warned plaintiffs' lawyers that it may try to scuttle the deal for surrendering smokers' injury claims.

DATA: BUSINESS WEEK

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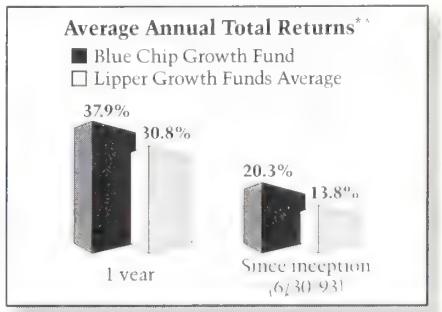

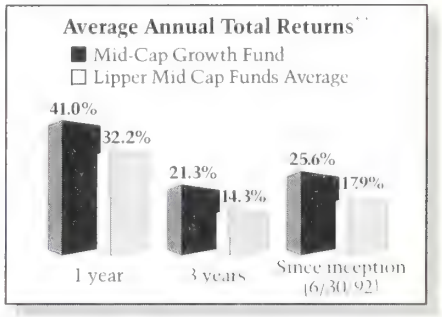

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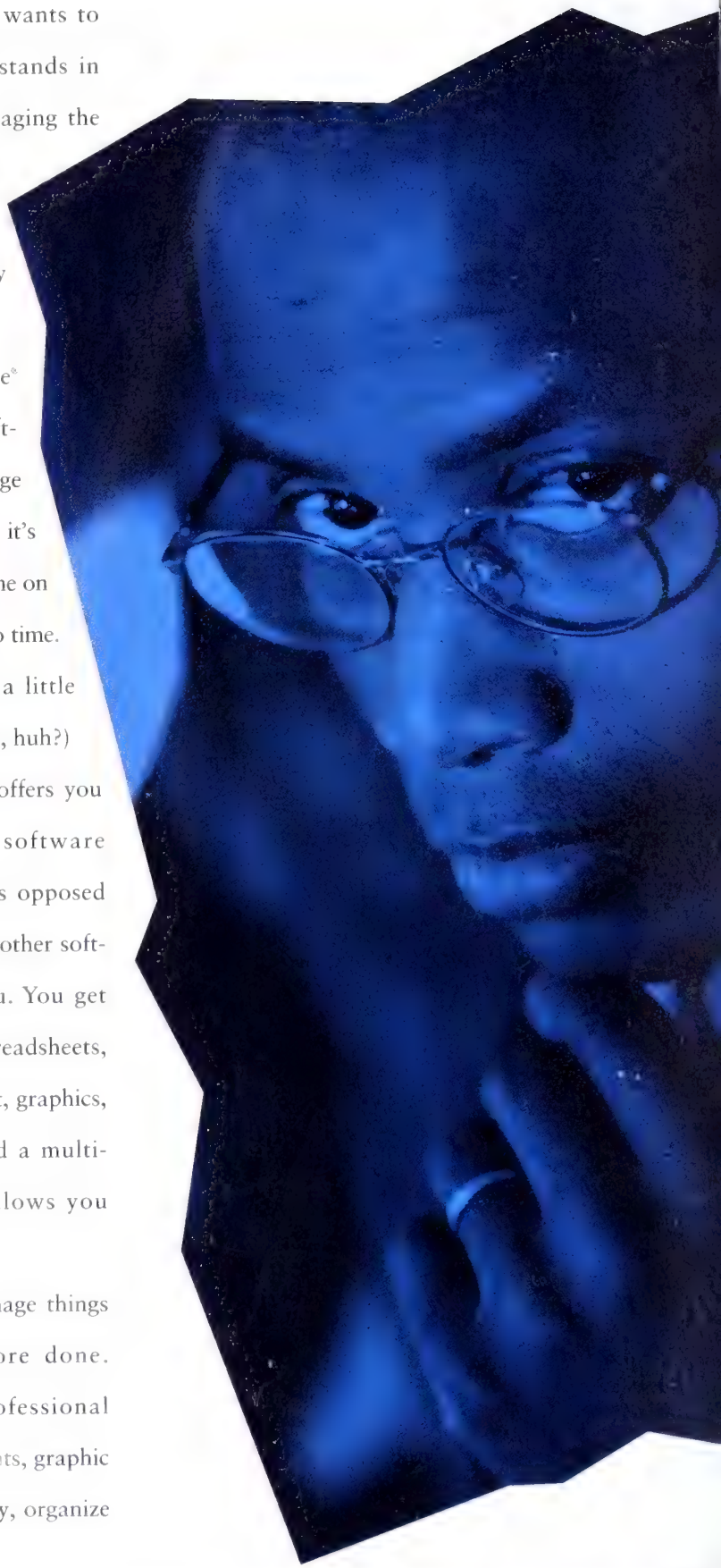

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torneys invariably claim that the judges failed to understand the value of the deals. They defend their fees as reasonable compensation for time and money invested and complain that plaintiffs frequently overestimate chances of success. Says H. Laddie Montague of Philadelphia's Berger & Montague, co-lead counsel for the plaintiffs in the drug suit: "A wonderful result has been temporarily scuttled. This is the first time [pharmacies] have ever had a victory over the drug manufacturers."

Even as judges lash out more at plaintiffs' lawyers, the new scrutiny will make it harder for companies to strike deals with opposing attorneys and to reach global resolutions. Several pending settlements are now being viewed more harshly. A $1.3 billion deal that 20 asbestos makers struck in 1993 to resolve all their future claims has been attacked as unfair to potential claimants and is under review by a federal appeals court.

NEW ADVOCATES. Liggett Group Inc.'s settlement in the Castano tobacco class action that seeks damages from alleged smoking addiction also may be challenged. The Public Citizen Litigation Group in Washington, which played a key role in overturning the Ford Bronco II and GM pickup settlements, has notified the Castano plaintiffs steering committee that it may try to overturn the deal unless smokers and their families are assured the right to file personal-injury and wrongful-death suits.

The stricter climate may not only scotch some deals but also put an end to a popular corporate litigation tactic. The idea is to offer to plaintiffs coupons or other noncash payment that can be assigned a high value for purposes of calculating plaintiffs' attorneys' fees but that cost companies little—such as the stickers and video for Bronco II owners.

Even though judges are trying harder to protect plaintiffs, their attempts can backfire. Hoping to prevent plaintiffs' attorneys from taking too large a slice of the winnings in a class action against Archer Daniels Midland Co. for allegedly manipulating the market for livestock feed supplement lysine, federal Judge Milton I. Shadur in Chicago held an unusual auction for the job. Philadelphia's Kohn, Swift & Graf won, agreeing to cap its fees at $3.5 million (although the firm can appeal for more money). After only a few months, the firm in early April settled the case against three defendants for $45 million, entitling plaintiffs' lawyers to full payment. Critics now wonder if the accord could have been higher without the fee cap. One way or another, the plaintiffs will continue to handsomely compensate their lawyers.

By Mike France in New York

COMPUTERS

SPEED GETS A WHOLE NEW MEANING

A power surge has scientists salivating over applications

CLEAR SHOT: *Sandia's Hale says high speed is needed for nuclear simulatio*

"Footprints" outlined on the floor with tape and chalk: That's all there is to see in the computer annex of Building 880 at Sandia National Laboratories in Albuquerque. By November, though, the marked-off spaces will hold the cabinets of the world's fastest computer. The $46 million dream machine from Intel Corp. will be capable of cracking the long-time fantasy speed of 1 teraflops. That's computer-speak for a trillion calculations per second.

"It's never been done before—like the first moon shot," says Edward A. Masi, head of Intel's supercomputer division in Beaverton, Ore. Sandia's computer nerds figure the system's peak speed could be as high as a blistering 1.8 teraflops—better than six times the world record of 281 gigaflops that a Sandia-Intel team set in December, 1994.

Intel has just begun shipping components to Sandia, marking the beginning of what promises to be a new era of dramatic surges in computer power. From now until 2002, the Energy Dept. will invest $940 million in its supercomputer program, called the Accelerat Strategic Computing Initiative, or AS By the end of 1998, Energy's plan ca for a 3-teraflops system. It will be stalled at either Los Alamos Natio Laboratory or Lawrence Livermore N tional Laboratory. In late 2000 or ea 2001, the lab that doesn't get that co puter will get a still-zippier 10-teraflo speedster. Coming in 2002 or 2003 is 100-teraflops system. And if the A program gets extended to 2005, one Energy's labs then might throw t switch on a 500-teraflops computer.

If computers were planes and gaflops were miles, the 1994 char could flit from Philadelphia to Bost in one second. In that same time, a 5 teraflops model could travel to the mo and back. Today's best personal co puters wouldn't get much beyond t two long blocks from Franklin Square the Liberty Bell.

What on earth would such incredib computing power be used for? F searchers have a long list. It includ modeling the atomic structure of n materials and the performance of co

To get an idea of teraflops' speed, imagine flying to the moon and back in one second

te aircraft designs in three dimen-
ns. Simulating the effects of car
shes on occupants, not just vehicles,
another example. Or simulating the
eractions among complex molecules
biological systems. Some jobs are so
gh that even 500 teraflops can't touch
m within a reasonable time. The Na-
nal Science Foundation is already
king far down the road at the need
petaflops (thousands of teraflops)
l even exaflops. One exaflops is 1
ntillion calculations per second—a 1
owed by 18 zeroes.

One hitch: Nobody knows how to
ld a petaflops computer, let alone an
flops machine. "If you look at the
miconductor Industry Assn.'s road
p for silicon technology, in 2010 it's
quite good enough for petaflops,"
s Rick L. Stevens, director of com-
er science at Argonne National Lab-
tory. He is a member of an elite
SA team that has spent more than
r years trying to figure out which
ign approaches stand the best chance
cracking the petaflops barrier.

Even after the group's years of labor,
cial puzzles and questions remain.
it's impossible to predict for certain
t the desired super-duper systems
l be built on time—or ever. "At this
nt," says Argonne's Stevens, "even
teraflops is just a fantasy machine."

EEDING EDGE. With the Defense Ad-
nced Research Projects Agency
RPA) trimming its funding for re-
rch on high-performance computers
l the National Science Foundation in
throes of reorganizing its super-
nputer centers to conform to Wash-
ton's belt-tightening moves, Energy
it had to cough up the nearly $1 bil-
n to spark new supercomputing de-
opments. "What they're trying to do is of fundamental importance to the nation," says Willy Shih, advanced-systems marketing director at Silicon Graphics Inc., the fastest-growing supplier of supercomputers.

Energy has no choice but to endure the inevitable pain of pioneering new "bleeding edge" technologies, says Gilbert G. Weigand, deputy assistant secretary for strategic computing. The reason: The department is under Presidential mandate to assure the safety and effectiveness of nuclear weapons—with zero physical testing. To do that with aplomb means modeling the weapons in far greater detail than has been done before. "We've got to develop the technology that will give us very high confidence in simulations," says Weigand. Achieving that, he figures, will take at least 100 teraflops.

The trouble with today's nuclear-weapons simulations is that they're flat—run only in two dimensions. "To be confident about safety and performance issues, we have to move to full 3-D simulations," says Arthur L. Hale, Sandia's manager for parallel computing. "But that increases the magnitude of the problem exponentially." Moreover, current software models carve up a bomb into only 20 million cells, which Hale considers grossly oversimplified. A lot of atomic-level physics takes place inside these cells, hidden from the computer. To achieve the necessary realism, he says, "we want much finer resolution—hundreds of millions of cells." And the technologies developed for that could provide a real boost to U.S. industrial competitiveness, Hale says.

IBM's Mark F. Bergman agrees. He heads Big Blue's supercomputer division, which has submitted a bid to supply the 3-teraflops system that Energy wants in 1998. IBM's game plan had already called for teraflops speeds by the turn of the century, he adds, because such performance will be demanded by customers in aerospace, automotive, pharmaceuticals, and perhaps even the entertainment business. Energy's ASCI program "is just accelerating things by two years or so."

BOWING OUT. Because ASCI's long-term goals are so risky, Energy officials were careful not to ask for breakthroughs that were too blue-sky. For example, the 1.8-teraflops system headed for Sandia is an expansion of the massively parallel Paragon supercomputers that Intel has been building since 1992. This one is spiffed up with newer microprocessors, and more of them. It will contain 9,018 high-end Intel Pentium Pro chips. The system that produced 281 gigaflops in 1994 was a pair of linked Paragons with a total of 6,768 i860 chips, which date back to 1989.

Although it sold more than 200 Paragons, Intel decided earlier this year to bow out of the supercomputer game. However, it will continue to make the key components for its teraflops system, which computer makers can bundle with disk drives and other parts to produce massively parallel number-crunchers. Intel might decide to bid on Energy's 10-teraflops computer, even though it will skip the 3-teraflops step. For that system, Energy decided to spread its money around—and hedge its bets—by specifying a different approach. Instead of massively parallel, this system will be a cluster of so-called symmetric multiprocessing (SMP) computers. These machines will be linked by high-speed connections so they can gang up on big problems. In addition to IBM, suppliers of SMP computers include Silicon Graphics, SGI's Cray Research unit, Hewlett-Packard, and Digital Equipment.

If Energy can prove that simulation works for nuclear bombs, the technique will be enormously important to industry, says Debra Goldfarb, director of high-performance computing research at market-watcher International Data Corp. "Clay models are gone—we don't build cars that way anymore," says Goldfarb. "And then you get into biological modeling and lots of other science that we're only beginning to understand. The whole economy is moving more and more to simulations." Which is why there will always be a need for a still-bigger supercomputer.

By Otis Port in New York

NSF'S COMPUTING WISH LIST

Finding detailed answers for the thorniest calculations in science will require almost unimaginably swift supercomputers—machines that can perform at speeds in multiples of petaflops (1 quadrillion calculations per second) and exaflops (1 quintillion calculations per second)

ROBLEMS	SPEEDS USED FOR RECENT CALCULATIONS	SPEEDS NEEDED BY 2000	LONG-RANGE NEEDS
OMPUTATIONAL COSMOLOGY	30 gigaflops	200 gigaflops	10 exaflops
NTERACTIONS BETWEEN ATOMS	300 gigaflops	30 teraflops	Under study
OLECULAR DYNAMICS IN BIOLOGY	30 gigaflops	3 teraflops	20 petaflops
UANTUM CHROMODYNAMICS	30 gigaflops	7 teraflops	100 exaflops

DATA: NATIONAL SCIENCE FOUNDATION

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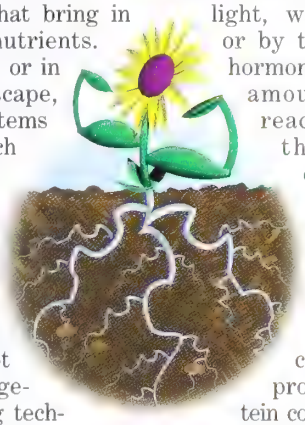
'MASTER SWITCH' T TURNS ON T GROWTH

ENERS LIKE TO SING THE es of their succulent s and delicate flowers. these floral wonders are ible only because of 's hidden beneath the the roots that bring in ture and nutrients. ng droughts or in ocky landscape, ral root systems be no match he task. ow, plant bi- sts at the Institute Biological ies in La Calif., have erated root th with a ge- engineering tech- that could lead to big- higher-yielding crops. king with the mustard —the plant biologist's valent of a lab rat—they ved a 40% increase in the of root growth by elevat- he production of one key in, cyclin. The new roots grow in normal shapes and patterns, showing no aberrancies. In effect, says Salk molecular biologist Peter Doerner, cyclin acts as a "master switch" regulating root cell growth.



The gene that makes cyclin in plants is activated through a chemical cascade set off by environmental cues such as light, water, minerals, or by the plant's own hormones. When the amount of cyclin reaches a critical threshold, the cells multiply. By reengineering the regulatory regions of the gene, Doerner and his team coaxed it into producing the protein continuously. Once the team understands how the cyclin molecule works, it expects to produce similar results in other plants.

Which crops would the biologists target first? Varieties of corn or alfalfa that don't normally tolerate drought.

David Graham

CHECKING HEART RATE IN A HEARTBEAT

AN ATHLETIC LIFESTYLE IS NO GUARANTEE AGAINST heart problems—as demonstrated by the collapse of University of Massachusetts basketball star Marcus Camby and by figure skater Sergei Grinkov's death last year. When an athlete or performer does collapse, doctors at the scene often can't determine whether hospitalization is required.

Medical-equipment startup Micromedical Industries Ltd. (MMI) of Labrador, Australia, thinks its portable cardiac monitor, called Biolog, can help. In the space of 10 seconds, this lightweight, battery-powered device records abundant data on heart rate and rhythm. And it costs just $3,200, one-third what emergency rooms pay for bulkier machines. "It's a valuable diagnostic tool for any sports event," says Dr. Marvin M. Adner, medical director for the Boston Marathon, who had it on hand for last week's race.

Marci Alborghetti

GREEN CERAMICS FOR INDUSTRY

LIGHT, DURABLE, ALUMINUM-based ceramics are ideal materials for car parts, circuit boards, and other industrial components. More than 30 million tons are used in the U.S. each year. But the chemical companies that make them are left with polluting organic solvents and acids to dispose of. Rice University chemistry professor Andrew Barron has invented a process that requires only water as a solvent and releases nothing more toxic than carbon dioxide. And the same process can be used to make industrially attractive "mixed" ceramics that contain more than one metal. TDA Research Inc. in Wheatridge, Colo., is helping to commercialize the process.

OW TO MAKE TOONS BOOGIE LIKE BIPEDS

Y THE POOR COMPUTER imator, staring into a nitor till 4 a.m. and creng frame after frame of a rsnip that sprouts legs d begins to dance. With ch frame, every limb of e edible ballerina has to nudged into a slightly ferent position. Autodesk c.'s newly formed Kinetix it aims to spare animars most of that grunt rk with a new program led Biped.

Biped, a plug-in module Autodesk's new 3D Stu- Max software, knows w bipeds move. It underands biomechanics and the center of gravity. An animator has only to specify where the parsnip's feet are supposed to land, step by step, like a Fred Astaire dance manual. Biped does the rest—figuring out how the arms would swing and the head would bob as the character follows the prescribed footsteps. For dance, the animator can specify where the hands should go, too.

Biped works with stick figures. A second plug-in module, Physique, dresses the stick figure with the wire-frame form of the character. Physique remodels the wire frame as the character moves—bulging the biceps when the elbow is bent, for instance.

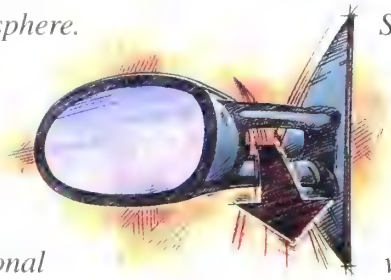
The just-released 3D Studio Max runs on the industrial-strength Windows NT operating system, in contrast to predecessor 3D Studio, which ran only on DOS. That, plus the program's new features, should make it a strong competitor to higher-priced software from Silicon Graphics Inc., whose Wavefront unit has a similar program, Kinemation. Dataquest Inc. analyst Kathy Klotz calls 3D Studio Max "pretty amazing." Klotz says SGI has recognized the threat and is cutting its prices.

Peter Coy

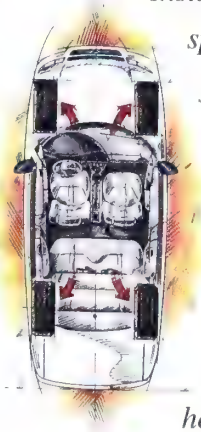
FOR FURTHER INFORMATION: Go to Business Week Online at America Online or E-mail dtwapr@businessweek.com

The shape of a vehicle's body has everything to do with inner space, and how it moves through the outside atmosphere.

So the people who designed Dodge Stratus crumpled up the book of conventional wisdom, and came up with this extraordinary example of air management, space maximization and automotive architecture.



The lines are round, soft, wedge-like. Its wheels-to-the-corners stance helps give Stratus remarkable handling and stability. The lowered cowl provides superb visibility and aerodynamics. And the dual pedestal-mounted side mirrors channel airflow so deftly, they even manage to reroute the rain for better side window visibili



Inside is the inherent spaciousness of cab forward design, al with decidedly driver-oriented ergonomics. The way the doors are curved front-to-ba and top-to-bottor helps provide even more shoulder and hip room a add side-impact protection.

It makes exc use of air an

other nice benefit: beneath the
tle rear spoiler sits the largest
*nk in the class.**
The Dodge Stratus. From
e end to the other, it's a
eath of fresh air. And space.
more information, call
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ndly Dodge dealer. And be
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e bumper-to-bumper warranty
*3/36 Roadside Assistance.***

tional
pace.

Stratus ES standard equipment includes...

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- *5-speed manual transmission*
- *Modified double-wishbone touring suspension*
- *Rear defroster* • *AM/FM cassette stereo*
- *Ultra high-strength steel door beams*
- *Air conditioning* • *Reclining bucket seats*
- *Dual airbags* • *Child safety rear door locks*
- *ABS* • *Dual power heated mirrors*
- *Cupholders* • *Speed sensitive steering*
- *Intermittent wipers* • *Speed control*
- *Tinted glass* • *Power windows and door locks*
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- *Tilt steering* • *15" cast aluminum wheels*

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COMMENTARY

By Michael J. Mandel

A DANGEROUS CONCENTRATION?

Is merger mania hurting the U. S. economy? Last year, the economy rang up almost 9,000 mergers and acquisitions, worth a record $460 billion. And the frenetic pace of such combinations hasn't let up during 1996. In the first week of April alone, regional telephone company SBC Communications announced its intention to combine with Pacific Telesis Group for almost $16 billion, insurance giant Aetna Life & Casualty bid almost $9 billion for U. S. Healthcare, and Allegheny Ludlum agreed to merge with Teledyne in a $2 billion deal.

For the most part, economists and antitrust regulators from the Justice Dept. and the Federal Trade Commission have focused on whether mergers such as these reduce competition in their individual markets—the market for local telephone services in one city, for example, or the national market for specialty steel products. The main issue is whether consumers of these products or services will see higher prices because of the merger.

LOOK UNDERNEATH. But there's another issue that has received much less attention. The ongoing merger boom raises a fundamental question of whether the U. S. economy, when taken as a whole, is becoming more concentrated. On the surface, it looks as though the biggest companies are shrinking as they shed workers in the process of cutting costs. But judging by the stock market, there are signs that economic power and the ability to generate profits is becoming gradually more concentrated.

To see why this is so, look at the market value of the largest U. S. companies. That figure reflects the stock market's assessment of their economic might, in much the same way that individual wealth indicates control over economic resources. In the first quarter of 1996, the 50 largest companies had a market value of $2.2 trillion, representing more than 39% of the market value of the BUSINESS WEEK 1000 companies. That's up from 37.5% in 1989, the comparable point during the last business cycle (chart).

Moreover, today's merger boom, if it continues, is likely to increase the concentration of economic power even further. The mergers that have been announced and not yet finalized, including the union between Time Warner and Turner Broadcasting, and future potential combinations, such as the possible merger between Bell Atlantic and Nynex, should boost the market value of the largest companies even more. In an age when entrepreneurial innovation is more important than ever before, the danger is that the U. S. may be in a slow spiral towards towards giantism which could squeeze out smaller companies and choke off competitive vigor.

Using share of market value to measure the overall concentration of the economy does have some drawb
Stock prices for indivi
companies can swing s
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ket value. Microsoft C
example, has relatively
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True, the antitrust r
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GIANTISM

Individual mergers
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competitors. "In price-fixing, the
some clear trip wires," says Law
White, a professor at the Stern
Business at New York Universit
was chief antitrust economist at
tice Dept. in the early 1980s.

STEAMROLLER. The Justice Dep
the Federal Trade Commission,
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THE BIG GET A BIT BIGGER

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WOES. At the same time, the
one market makes it easier to
ontrol of other markets. A local
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well. Or a merger between a
utical company and a major
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er, the convergence between dif-
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hone companies will turn out to
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or the long-distance companies.
lt, mergers between apparently
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ect of reducing competition
technological and regulatory en-
settles down. "A PacTel-SBC
oks fine now," says Timothy J.
an economist at the University
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w enough to draw a line."

nt years, most antitrust econo-
e made a point of emphasizing
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ny composed only of giants.

l covers macro trends in the

INFORMATION MANAGEMENT

NEW TRICKS FOR HELP LINES

Customer-support software is going gangbusters

Two years ago, customer-service hot lines at Yamaha Corp. of America were so congested that an estimated 35% of callers gave up before getting through. The company's biggest customers, such as NBC Inc., had to wait on line with the hoi polloi.

Tired of losing customers, Yamaha increased its phone-support staff and asked a small Emeryville (Calif.) software company called Scopus Technology Inc. to help automate customer service. Today when a call comes in from NBC, Scopus software in Yamaha's computer-telephony system recognizes the incoming call and transfers it promptly to an engineer, along with detailed data on NBC's previous questions and complaints.

IN FAIRBANKS: *A troubleshooter uses Remedy software to check computer glitches along the pipeline*

That's a big help right there. But the Scopus package also tracks each customer interaction—in the process compiling data that can help spot problems, improve products, or even generate sales leads. "We know exactly how we're doing," says Steven G. Thatcher, general manager for support at Yamaha's Customer Satisfaction Group. "We can check recurring calls, see how long it takes us to get back to the customer, and track defects down to a single product and single serial number."

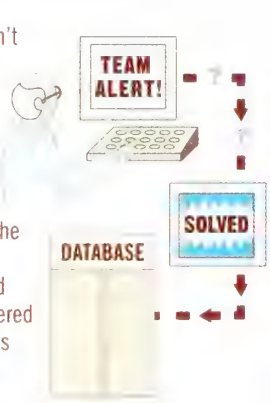
SMART SUPPORT. Across Corporate America, troubleshooters such as Thatcher are discovering the benefits of "customer-interaction" software. Whether the business is insurance, long-distance phone service, or selling high-tech gear, companies are finding such software can help turn their customer-service operations into a corporate asset. Already, a half-dozen Silicon Valley startups, in addition to Scopus, are producing customer-interaction software—and helping companies in the service economy reap big rewards.

How? For starters, these programs shrink time spent on 800-service lines because each customer describes a problem only once. More important, with every call, a database of customer queries and complaints is built up, which can yield insights into the business that can lead to improvements. Using a soft-

ware program from Remedy Corp., a technical support group within Motorola's cellular division realized that it was spending far too much time helping the division's personal-computer users install software programs. Now, more software comes preinstalled on new PCs. "Remedy helps us operate with half the number of staff you'd expect to see on a network this large and complex," says Motorola Senior Director of Information Technology Services Jack Leifel.

HOW CUSTOMERS GET HELP

1 A call for help comes into Microsoft's support center from a new customer: a systems manager at a large bank. As she talks, a Microsoft engineer creates a file that describes the problem. A pop-up screen on his desktop has already identified the caller and produced a snapshot of her network configuration.



2 If the engineer can't solve the problem within a specified time, his computer alerts the Microsoft team manager, who can call up the case with a few clicks on the keyboard. When the problem is solved and the manager has entered comments, the case is stored in a database.

Thanks to similar stories at hundreds of companies, customer-interaction software "has become one of the hottest areas" for large corporations, says Vinnie Mirchandani, an analyst at Stamford (Conn.)-based Gartner Group Inc. And the explosion of activity on the World Wide Web is speeding adoption of the software by corporations. With the rise of corporate intranets—internal networks based on the Web—virtually every employee with a Web browser and proper authorization has the information to help customers.

That adds up to a big opportunity. The market for customer-interaction software could soar from about $400 million last year to $3 billion by 2000, says Hambrecht & Quist analyst J. Neil Weintraut. The top players in the burgeoning field—Remedy, Vantive, Clarify, and Scopus—have racked up 100% annual sales growth since the early 1990s.

ALL-TIME HIGHS. And they're cashing in on investor enthusiasm: All four companies have gone public since last March, beginning with Remedy, which H&Q helped underwrite. Its shares, initially priced at 23, began trading at 43. Today the stock hovers around 62. Clarify Inc. and Vantive Corp. were quick to follow. Both have doubled in value and are trading near all-time highs.

The Web synergies are particularly appealing to investors and analysts. Most of the customer-interaction software makers have already adapted their products to work with the Web. At Motorola, for example, employees can solve their own systems problems using question-and-answer screens on the company's intranet.

Customer-service software startups will get an even bigger boost as Web-browsing programs gain new powers and companies begin to integrate their telephone and computer systems more tightly. By the end of this year, figures Vantive CEO John R. Luongo, PC owners with a problem will be able to get onto the manufacturer's Web site to make direct inquiries and activate software at the site to scour different databases for a solution. If that does not solve the problem, PC users will be able to click a button on the screen to activate a voice line and speak with a real person. A pop-up screen on that agent's computer will display a complete record of the customer's effort to solve the problem. "When all the Internet hype finally settles," says Luongo, "customer interaction and services will be the leading applications on the Net."

So far, companies have been willing to pay top dollar for customer-support software. Remedy, for example, charges upwards of $100,000 for big corporate clients—helping it maintain operating profit margins of 25% and net profit growth of 150%. The $40 million software maker got its start by automating internal help desks. Now, Remedy's software is used by many companies to provide service and support to external customers as well. The Anchorage (Alaska) office of computer consultants CTG Corp., for example, relies on Remedy's AR User software to troubleshoot computer glitches for Alyeska Pipeline Service Co., which manages 800 miles of Alaskan oil pipeline.

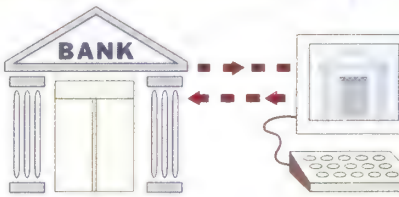
Clarify, on the other hand, focused from the beginning on external supp The company has had particular s cess attracting high-tech giants such Hewlett-Packard, Cisco Systems, a Microsoft (table). After toying with veloping its own customer-service s ware, Microsoft last year settled Clarify. A key selling point: its flexib ty, says Mark Perry, Microsoft's gene manager for corporate and develo support. "We could integrate it with existing databases handling contr management, accounting, and qua tracking," he explains. The softw handles a relatively modest 1,100 cal day—about 4% of the company's to phone volume. But the results have p suaded Perry to make Clarify a l tool for use by all the company's 3, support engineers in North America

Indeed, Clarify CEO David Stamm ures the boom in home PCs create huge demand for his customer-inter tion software. Hardware and softw companies are selling more stuff at l er prices and to customers who are l sophisticated. "Providing service comes a tremendous challenge," he sa

BRIGHT FUTURE? Home PC owners, course, aren't the only consumers w could use coddling. Calling into a h line can be as frustrating for a bu ness user as a consumer. Vantive's c tomers, for example, range from Jap ese electronics powerhouse Canon l to California's largest health-main nance organization, Kaiser Permane

How long can the startups thri

3 Next time the customer calls, any service engineer who answers the phone can pull the case up and add to it. A separate Clarify program, meanwhile, monitors the database for patterns in incoming calls and reports any recurrent problems to Microsoft's quality-control team.



Analysts and investors are debating t point. One startup, Software Artis in Indianapolis, is struggling. And s ware giants such as Germany's SAP starting to sell similar types of s ware. Still, Clarify's Stamm figures c tomer-interaction software makers h a huge head start. And they alre have a leg up with the people w count—the customers.

By Neil Gross in New Y

The Dark Side of Internet Commerce

By James H. Johnson

The Standish Group research shows that American sinesses lose billions of dollars each year as a result computer system failures. There is no environment ore unreliable or insecure than the Internet. Yet this vironment is the new hope for electronic commerce. fact, The Standish Group estimates that by the year 00 over half the world's electronic transactions will cur over the Internet.

terviews conducted with CEOs representing Fortune 0 corporations reveal that fully one third of all normal siness activities are now being conducted around the ck — 24 hours a day, seven days a week.

rthermore, these executives indicate that 7 X 24 busi- ss activity will steadily increase to 60% as we approach e end of the century. The demand for continuous in- rmation technology operations is being fueled by the ed to meet customer requirements and meet (or op- nally beat) the competition. The answer to this di- nma lies in a technology referred to by the computer dustry as high availability computing.

was not too long ago that high availability was reserved r highly mission critical applications. You know the type — automatic teller machines, electronic funds transfer and airline reservation systems. But today we can not live without E-Mail and the Internet to run the business. Therefore it is imperative to consider high availability in the development of a computing infrastructure and not as an after thought.

When selecting technology to run the business, many companies have suffered penny-wise-and-pound-foolish syndrome; selecting technologies because they were either cheaper, highly fashionable or both. In today's highly networked environment, the cost of unavailability should be the first priority when selecting a system for running business applications. The Standish Group has documented several cases where a single incident of a computer downtime was a magnitude more than the differential cost of providing greater application availability.

Jim Johnson is the founder and Chairman of The Standish Group International, Inc. The Standish Group International, Inc. is a market research and technology advisory firm that specializes in transaction processing and electronic commerce.

Building a Reliable Internet Environment

The Internet changed the IT world and the world in general. What will be the next big change? Johnson's law states: *You can not control nor anticipate change in the information technology world of others; You can not control nor anticipate change in your own information technology world; You will need to play in both worlds.* In order to cope with Johnson's Law you need to build a reliable enterprise environment. That reliable enterprise environment must be eminently adaptable, infinitely scaleable, adroitly manageable, effortlessly distributable, easy to use, and very secure. Of course, the most important requirement is high availability.

Enterprise computing is unpredictable and transient, and adapting quickly is a must. The market-agile organization can ill afford major time and resource sinks. Being able to use off-the-shelf technology and integrate it into the environment is a must. Off-the-shelf also means off-the shelf availability. From the end-user point of view, availability is defined as *conducting business without interruption.* As such, availability must be considered a system-wide issue. To financial traders suddenly disconnected by a network failure, the "system" is nonfunctional. It is of little interest to the traders which particular part of the system failed — their ability to make intelligent trades has been jeopardized.

Predicting usage load when using the Internet for electronic commerce is a difficult task. New technologies such as clustering computers together can make growing a computer system much easier.

The processing of information in the enterprise is transient. Distributing business applications to the point of need and being able to change locations quickly obviously requires technological decisions. Branch offices, mobile workers, regional centers, and corporate campuses all require different technologies. These diverse needs, coupled with a variety of computer systems, personal computers, networks, and databases can make the task of distributing applications seem quite difficult. What is needed is a product that can work in and across these environments to insure application compatibility.

How important is the computer application in the operation of our business?

How many minutes per year will the computer application be unavailable to the user and what will it cost us?

Will doing business over the Internet require greater availability?

Once the most closely-guarded of all company asse corporate computing resources are now being asked service a variety of extended users. An increasing nu ber of corporations are conducting business-to-busine electronic transactions. A new but growing class of i dividuals are gaining access to sales catalogues and c der entry procedures via dial-up or Internet service Few technologies offer the kind of scalablity and ma aged availability as Stratus Computer's RADIO™ pro uct which is designed for this new environment.

How do you determine what availability is right for yo The Standish Group has developed a chart to help d termine application availability needs based on user r quirements. This chart is called the Standish Availab ity Dependency (SAD) chart and is illustrated on th last page of this article. After determining which SA level is the best fit, look at products that can accomplis the business objective of availability. The Standish Grou has created the Standish Availability Competency Cha (SAC). The SAC refers to the rating of a particular pro uct or service needed to deliver the required busine availability (SAD).

By taking the business availability requirements usi SAD and matching it with the corresponding SAC yo will have th proper ava ability r quiremen for your bu ness applic tion. Th Standis Group ha rated mo availabili technologie For exampl a single sy tem with r availability features has been rated a SAC-1, while a ful fault-tolerant system has a SAC rating of 5. For a co plete list of Standish Group ratings please refer to Th Standish Group's World Wide Web page **www.standishgroup.com**.

Until recently, high availability was achieved throug either planning ahead and purchasing a fault-tolerant sy tem, such as the Stratus Continuum, or adapting an e isting system with failover capabilities. However, a ne breed of systems is emerging that actually manages ava ability. For example, Stratus' new RADIO product has range of availability from a SAC-1 through to SAC-5.

continued page

1st Century Retailing Through Fault-Tolerant PC uperserver Clusters

s shoppers increasingly use store discount cards to y for groceries by check or credit card, computer-vvy merchants are uncovering a bonanza in relevant arket data. Buying habits revealed by those cards old the promise of supermarket chains identifying and warding their best customers with pinpoint accuracy. his allows Retail chains to maximize advertising in-stments while attracting more customers by simpli-ing shopping and offering better values based on buy-g frequency.

ne technology underlying these marketing innovations reliable distributed computing in which critical appli-tions span the entire enterprise. To ensure that this valuable data is not lost, such applications are being osted on fault-tolerant computers that keep running matter what happens to underlying hardware or net-orking.

mong the earliest implementors of this technology is ice Chopper Supermarkets, a chain with 79 supermar-ts and 15 combination gas station / convenience ores, from Pennsylvania to Vermont. Price Chopper as integrated a customer relations management RM) system on the world's first fault-tolerant PC rver cluster, RADIO™, from Stratus Computer, Inc.

ADIO is a cluster of Pentium-based PC servers sup-orting Microsoft NT operating systems. RADIO is ique in its ability to deliver application-based, as well hardware fault tolerance.

ne CRM application, written by S2, a leading provider retail software solutions and a software subsidiary of ratus Computer, interfaces with the retail chain's in-ouse automatic teller machine (ATM) network. CRM elps Price Choppers' management learn about cus-mers and their buying patterns. This in turn enables ice Chopper to target direct marketing programs that eet the specific needs of different customer groups.

ice Chopper's reliable enterprise-wide CRM system onnects more than 1200 cash register terminals at its ores to DOS-based file servers and PC-based in-store rocessors that act as clients to the Stratus RADIO PC rver cluster as well as a mainframe that holds pric-ing, inventory, and other corporate data. The traditional alternative to CRM has been blanket advertising through newspaper supplements or mailings to entire zip codes. With CRM, Price Chopper can spend its promotional dollars and track the return on that investment much more accurately.

At check-out time, customers use their Price Chopper bar-coded membership cards to receive electronic cou-pons which are automatic savings on advertised weekly specials. Besides feeding the CRM database, electronic coupons save customers time because they don't have to clip paper coupons.

The chain also uses the Stratus fault-tolerant enterprise-wide network for inventory management through its direct store delivery system which tracks goods from Price Chopper's suppliers to each store. This allows accurately timed deliveries of sale items to meet planned demand from direct marketing efforts without use of a Price Chopper warehouse.

Price Chopper's long-range plans call for expanding the fault tolerance of its systems beyond its headquarters, thereby eliminating any single points of failure that could cause outages at the individual store level. Integration of Stratus RADIO clusters for its CRM network further enables rapid deployment of new services solving com-plex systems manageability and serviceability issues. Additionally, it allows the chain to provide improved customer services.

Growing enterprises such as Price Chopper need to move with the times in order to address their evolving business needs. By deploying Stratus' RADIO with its reliable distributed computing technologies, Price Chop-per can stay ahead of the pack. With RADIO, Stratus is optimizing fault tolerant service to business critical ap-plications by developing continuous distributed process-ing on two high performance systems architectures - HP - PA Risc™ and Intel® Pentium®.

The Price Chopper CRM application is a clear example of how corporate users can successfully integrate criti-cal applications over distributed computing architectures that span the entire technology and allow such critical applications to be extended all the way to point of sale and branch office clients while ensuring required levels of availability.

Managed availability products can be used in a network of systems with complete compatibility. You can place a SAC-3 in a branch office, a SAC-4 in a regional office and a SAC-5 in the corporate office. If availability requirements change, a simple upgrade can convert a SAC-3 to a SAC-4 overnight.

In summary, the primary requirement for coping wit the changing computer infrastructure is an execution en vironment capable of supporting highly-available busines services and guaranteed information resource integrit Thus the need for reliable enterprise computing and mak ing business applications ready for the future.

Level	Business Impact	Description
SAD-1	Inconsequential	The application can be unavailable for several hours or even days without an impact on the business.
SAD-2	Negligible	The application can be unavailable for several hours or even a day without a major impact on the business.
SAD-3	Substantial	The application can be unavailable for up to 3-4 hours in the operation period without major impact on the business
SAD-4	Significant	The application can be unavailable for up to 30 minutes in the operation period without a major impact on the business.
SAD-5	Momentous	The application can not be unavailable for any time during operation period without a major impact on the business.

Level	System Impact	Description
SAC-1	Momentous	A system problem will cause the business application to be unavailable for several hours or even days during the operational period.
SAC-2	Significant	A system problem will cause the business application to be unavailable for several hours during the operational period.
SAC-3	Substantial	A system problem will cause the business application to be unavailable for up to 3-4 hours during an operational period.
SAC-4	Negligible	A system problem will cause the business application to be unavailable for up to 30 minutes during the operational period.
SAC-5	Inconsequential	A system problem will cause the business application to be unavailable for no more than 5 minutes during an operational period.

For more information on The Standish Group, Stratus Computer, Inc. or Electronic Commerce, pleas return the following information to The Standish Group International via FAX at 508-385-7522.

Company Name: _____

Name: _____

Address: _____

City, State, Zip: _____

Telephone: _____

FAX: _____

E-Mail Address: _____

Stratus

Stratus Computer, Inc.
1-800-RADIO-PC
www.stratus.com

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James H. Johnson, founder and Chairman of The Standish Group International, Inc.

The Standish Group International, Inc. conducts market and technology research for users and vendors in the mission-critical OLTP (On-Line Transaction Processing) and open client/server systems marketplace, with a distinct focus on electronic commerce. The Standish Group additionally provides custom consulting services to clients in the Fortune 500, government agencies, and major universities.

THE STANDISH GROUP

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GOTIATORS

ANDPAPER AND ILK IN BEIJING

et the hotshots who politely talk tough on trade

orget Japan. With its mega- economy and mile-long rap of trade viola-, China has be- the world's vexing outlaw er. So the Clin- Administration have a posse of tiators on the dle Kingdom's right?

y just two. ther the issue is ese knock-offs of rican software, urbs on Kansas at imports, or shakedown of semiconductor ers for technolo- he same two ne- ators from the e of the U.S. e Representative nbark in Beijing. ill, Lee M. ls and Deborah get results. r biggest suc- last year's pact amp out piracy .S. movies, soft-, books, and mu- compact disks. igh Acting USTR lene Barshefsky the final deal, ls and Lehr paved the way to the minute accord that averted a costly e war. Says Barshefsky: "This is an aordinarily effective team."

Wheat imports? Software piracy? It's all in a day's work for the Trade Rep's China negotiators

DEBORAH LEHR AND LEE SANDS

LLECTUAL SOULMATES. Trouble is, a hasn't lived up to the February, , agreement. It's cracking down on ilers of pirated goods but not on ories that churn them out. So Sands Lehr are turning up the heat again. ess China complies soon, the Ad- stration will slap more than $2 billion in sanctions on Chinese imports. For now, Beijing is balking. But Sands, who has made nearly 50 trips to Beijing since 1991, is unfazed. "Signing an agreement with China always turns into another negotiation about what they are going to implement," says the 44-year-old assistant trade representative.

The duo's tenacity and street smarts win raves from U.S. business. Says Tom Gorman, former president of the American Chamber of Commerce in Hong

HOT TRANSCRIPTS

When Yahoo! co-founders **Jerry Yang** and **David Filo** were the guests of a Business Week Online live conference in July, most people didn't know Yahoo! from Yoo-Hoo. Today, Yang and Filo are the Net's latest instant millionaires, thanks to the IPO of their red-hot Web-search directory company.

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AMERICA Online

Kong: "They know how to show respect and how to be tough as nails, and that's a very fine line." Still, Sands has an independent bent that irks some colleagues. "Not everyone is crazy about him because he's not very collegial," says one government official.

Being intellectual soulmates magnifies the pair's firepower. Colleagues say Sands and Lehr think strategically and understand the need to build coalitions in China and in the U.S. to win deals. "They can finish each other's sentences, they think so much alike," says the National Security Council's former Asia director, Douglas Paal, a Harvard University classmate of Sands and Lehr's former boss.

Sands, with whom Lehr, 31, has worked closely since joining USTR in 1992, is the driving force and big-picture person. "I always put trade in a strategic context of the Clinton Administration's larger goals—job creation and economic growth—so the Chinese understand" why the U.S. is raising an issue, says Sands who, like Lehr, is a Republican.

> Sands always puts trade "in a strategic context of the Clinton Administration's larger goals—job creation and economic growth"

He learned the link between trade and jobs early. When he was 13, his father lost his job at TV maker Philco when the company was squeezed by Japanese imports. The family had to leave his hometown, Philadelphia.

BUDDHIST QUOTATIONS. He got hooked on Asia in 1971 when he spent the summer in Korea. After graduating from City College of New York in 1973, he earned a master's in East Asian studies at Harvard, then did post-graduate work in Chinese history at Yale University. He meanwhile nursed an interest in economics. His unfinished doctoral dissertation was a commercial history of Beijing's booksellers' district in the 17th and 18th centuries. Divorced, he lives with his son, 19. On his trips to Hong Kong he visits his daughter, 14, who lives there with his ex-wife.

Sands joined the State Dept. in 1981. While an economics officer in the U.S. embassy in Beijing in the mid-1980s, he roamed the provinces, establishing a wide range of contacts and learning how the economy works. The experience was invaluable once he moved to the USTR in 1991 as its first permanent China hand. "If you understand the difficulties your partner faces," he says, "it makes it easier to negotiate."

Though Sands has taken part in Japanese trade talks, China is where he has made his mark. He led arduous talks with Beijing that led to a 1992 accord forcing China to lift barriers on a wide array of imports. During the talks, Lehr recalls, Sands traded Buddhist quotations with his Chinese counterpart, relating them to the subject of market access. The deal was a groundbreaker for U.S. industries such as telecommunications. One result: a pact between AT&T and the Chinese generating sales of several hundred million dollars' worth of switches.

Lehr's commercial instincts and eye for detail complement Sands's strategic vision. Her youth and striking looks mask a steel-trap mind. Recalls Eastman Kodak executive Ira Wolf, once her boss at USTR: "When we put her up against veteran Chinese negotiators, they'd think 'mmm, live meat,' but it didn't take long for them to realize the appearance was deceptive." Lehr, who ends a brief maternity leave this month, studies trade arcana lest the Chinese test her. During talks on intellectual property rights, she recalls, "I made a point of getting to know their copyright laws so I could cite them back to them."

Lehr grew up mostly in Britain and Germany, where her father, an Air Force fighter pilot, was stationed. After earning a master's degree in international relations at George Washington University in 1988, she joined the Commerce Dept. She did a stint in the National Security Council's Asia unit, then jumped to USTR. She is married to John Rogers, an executive at Goldman, Sachs & Co. who was a top State Dept. aide during the Bush Administration.

As time runs out for the Chinese to back up their antipiracy pledges, Sands and Lehr's reputation as crack negotiators is being tested. The atmosphere is not helped by China-bashing on Capitol Hill and the Administration's dithering on China policy. Judging by past trade talks, Beijing won't budge until the U.S. announces sanctions. When that happens, count on the USTR's dynamic team to drive a hard bargain.

By Amy Borrus in Washington, with Edith Hill Updike in Tokyo and Pete Engardio in Hong Kong

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Walls are falling as the "office of the future" finally takes shape

THE NEW

Cover Story

WORKPLACE

WITH ITS DIMPLED ALUminum facade and TV-screen-shaped windows, Pittsburgh's Alcoa Building once exemplified the power and pizzazz of the classic corporate skyscraper. When it went up in the 1950s, 2,000 company employees streamed into the 31-story tower every morning, each to work in a private 12-foot by 15-foot office.

But go looking for Aluminum Company of America Chief Executive Paul H. O'Neill in his office these days and you discover that he doesn't exactly have one. The executive

PHOTOGRAPHS BY MARK RICHARDS/CONTACT

FALLON-McELLIGOTT
When it's time to brainstorm, the Minneapolis ad agency's art directors and copywriters wheel specially equipped desks out of their cubicles to meet in "flexible" space

Most companies are embracing the idea of **PROJECT TEAMS**. But individuals still need a private space in which to read and think and accomplish their tasks, as well as a place to collaborate with their colleagues and hammer out strategy. Furniture makers and office designers are trying to create these combination **"CAVE AND COMMONS"** environments by grouping private work areas around larger communal team space.

PROCTER & GAMBL
Its new facility n
Cincinnati is set
lunchrooms and loung
have whiteboards for
brainstorming by empl

IN FOCUS SYSTEMS Engine
and marketers at the Or
maker of computer-proje
systems can move freely
Personal Harbors to the
puzzle-like group table

suite has no permanent walls or doors. All of Alcoa's senior executives work in open cubicles and gather around a "communications center" with televisions, fax machines, newspapers, and tables to encourage impromptu meetings. O'Neill's own favorite hangout is the kitchen, where he and his staff nuke take-out food, huddle, and talk work. "It's like being at home in your own kitchen and sitting around the table," he says happily.

Cover Story

This experiment has taken place only on Alcoa's top floor. But O'Neill will soon bring kitchenettes and open offices to the whole company. Alcoa is abandoning the aluminum tower for a new three-story complex on the banks of the Allegheny. "We're going to have an opportunity to do things with the way people relate to each other. It will be freer and easier," O'Neill says. With escalators instead of elevators and plenty of meeting rooms, "there'll be a lot of places where people can gather."

Alcoa is eager to solve an increasingly urgent workpl
problem: After having downsized, reengineered, custon
focused, shattered old hierarchical structures, and reor
nized work around teams—all the things that were suppo
to make companies more responsive and competitive—
porations such as Alcoa aren't getting the results they
pected. They are, quite literally, running into walls, beca
the new work styles don't work in buildings designed for
old top-down corporation. "Companies feel work proces
need to change, and physical environments can get in
way," says Karen Lalli, senior associate with the Hil
Group, an architectural firm based in Princeton, N.J.

Hence, the much prophesied "office of the future" is fi
ly taking shape. From Manhattan towers to Silicon Valley
ups, from behemoths, such as Mobil, IBM, and Procter
Gamble, to tiny startups, business is embracing new office
signs for the 21st century. Privacy is being replaced with p
ductivity, hierarchy with teamwork, and status with mobil

DA Everyone in the new
:utive suite, secretary and
alike, works in cubicles
out permanent walls or
rs, gathering in a "commu-
tions center" with tables,
and a fax machine or nuk-
:ake-out in a kitchenette

ork anywhere, anytime is the new paradigm. Your car, home, your office, even your client's office. Work alone, ied, teamed. Work in real space or in cyberspace. It nts to a massive disaggregation of work, spinning outside valls and confines of the traditional office.

the office of the future is a bit tardy in making its ap-ance, it's because technology is just catching up with omic trends. That "seamless" web of voice, fax, and e is only now making teamwork and mobility a reality. it took business time to grow comfortable with tools such oice mail and E-mail, the World Wide Web and private anets" that link far-flung workers.

orporations are putting their money into computer net-s and other technologies that can boost efficiency and ef-veness, while cutting back on bricks and mortar. At y companies, says Lalli, technology is already surpassing ties and real estate as the second-biggest corporate op-ng expense, after salaries and benefits.

Increasingly, architects, interior designers, facilities managers, and furniture companies are assuming a new role: strategic consultants familiar not only with blueprints but also with human behavior and organization. Corporations are using them to boost productivity, not stroke executive egos. "The forms of organizations that achieve competitive advantage are exploding," says Gene Rae, a principal with Studios, a Washington-based firm that has created innovative workspaces for General Electric, Silicon Graphics, and other major players.

DOING AWAY WITH OLD PERKS. Design of the office of the future is rushing simultaneously in two directions: One is reorganizing the space of employees who must still work in offices. The other is shoving everyone else out the door. For people involved in product innovation or development, for example, cutting cycle time is key. The need for speed makes it imperative for employees to team up and share information.

Consider the "cave and commons" design. The idea is to balance individual work and teamwork, privacy and community. At Minneapolis-based advertising agency Fallon-McElligott, when it's time to brainstorm, art directors, space buyers, account managers, and copywriters can now wheel special desks equipped with an employee's computer, files, and phone into what they call "virtual" or "flexible" space. The room may hold 30 employees on Monday, none Tuesday, 10 for a

If your company is p
in the future, we'd be h

Official Sponsor of the Atlanta Olympic Games

Marvin Butler leaned back in his chair and took a deep breath. He'd just added it 15,000 new telephone lines, 105 new wireless microcells, 2,400 new audio circuits, mention 600 digital video circuits. And that was just the beginning.

It was staggering, even for a BellSouth engineer like Marvin, to see just what goes event as colossal as the 1996 Atlanta Olympic Games. An occasion that includes one most advanced local telecommunications networks on the planet. A system so vas could be called the first Olympic Games of the Information Age. Services include an enhanced netw

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ple like Marvin Butler and countless others here at BellSouth can provide these services and
ogies, no matter what size project you have in mind. Even after creating such an advanced local
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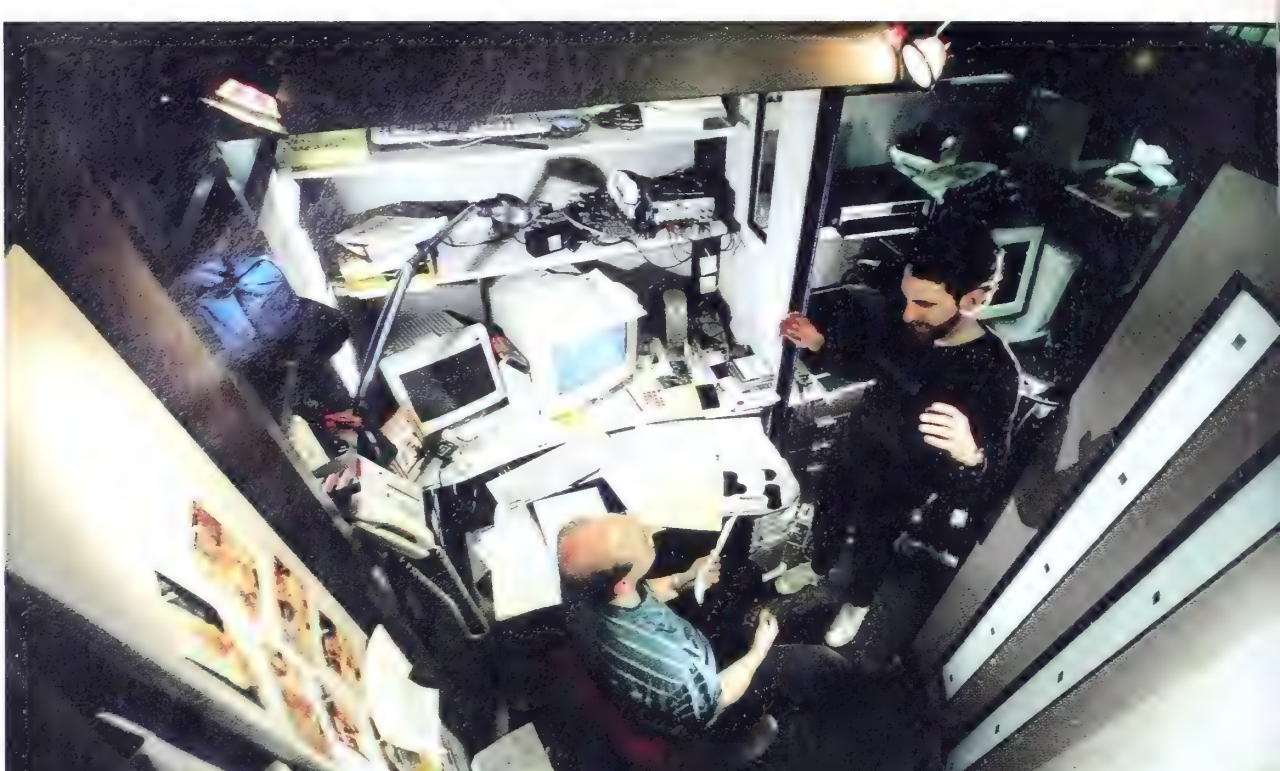

marathon session on Wednesday, depending on what needs to be done. Group members may all be typing silently and furiously at their stations or meeting at a center table. "It's a wonderful solution for businesses where teamwork is everything," says Rob White, director of planning.

Then there is "hoteling." As more companies rack up huge bottom-line savings (and improved customer relations to boot) by outfitting mobile workers with laptops, cell phones, and other tools, the legions who spend most of their days out of the office—telecommuters, sales personnel, consultants, and auditors—are growing. These folks still need a place to have the occasional meeting with the boss or gather for team-building. So companies are providing buildings where offices or meeting rooms can be reserved in advance. Just like a hotel.

If you haven't seen any of this at your company, you probably will soon. According to a 1995 survey by the International Facility Management Assn., 83% of companies are embracing so-called alternative-office strategies, from cave and commons and hoteling to telecommuting and open-plan office designs.

Cover Story

While they may not look vastly different from conventional offices, the new workplaces repeal rules that have governed corporate office design in the past. No perk has been more sacrosanct than personal space, no status symbol more significant than big, heavy mahogany doors sweeping across deep-pile carpet and sealing executives into remote lairs with a smug ka-chunk. In many companies, when employees congregated in neutral zones such as lunchrooms, hallways, and patios, managers cast a dim eye and mentally added names to their list of slackers.

New workplace design reverses all that. Take Procter & Gamble's gleaming new $280 million, 1.3 million-square-foot building tucked into a wooded knoll 20 miles north of Ci nati. The need to promote product development dictated space, not trendy architectural forms or status symbols. facility had to become a competitive advantage," says Jones, P&G's research and development vice-president over-the-counter health-care products. "We went abou like we were developing a new product."

CHAT-ZAPPING ELEVATORS. Project groups were the ce design theme. Members of teams work in open cubi grouped together, and can all see each other, regardles rank. File cases are literally on wheels, and offices are signed in "bricks" that can be reconfigured in short order team needs to get bigger or smaller. P&G personnel trave tween floors by escalator, instead of conversation-zappin evators. So-called huddle rooms are strategically placed w teams can come together to brainstorm. P&G also equip spaces within the building, such as lunchrooms and lour with electronic whiteboards that can convert scribbling E-mail. Corridors are deliberately wide and have cou where workers can stop for a quick chat. The building op last July, and Jones is thrilled. He's convinced it will de 20% to 30% productivity gains because "data sharing is mediate, and higher-quality decisions are made faster."

Linda Dudek, 33, a P&G engineer, says she was leery w she heard private offices would be verboten in the new Today, she's a convert: "Things get accomplished a lot qu er because I can stand up and see everyone on my team manager, my manager's manager."

P&G is also among those companies using design to dual-career families while still boosting productivity. W planning its new building, the company specifically designe a dry cleaner, a shoe-repair shop, and a cafeteria that pares food that employees can take home at night. It home for Dudek, the mother of two. "The freedom I've

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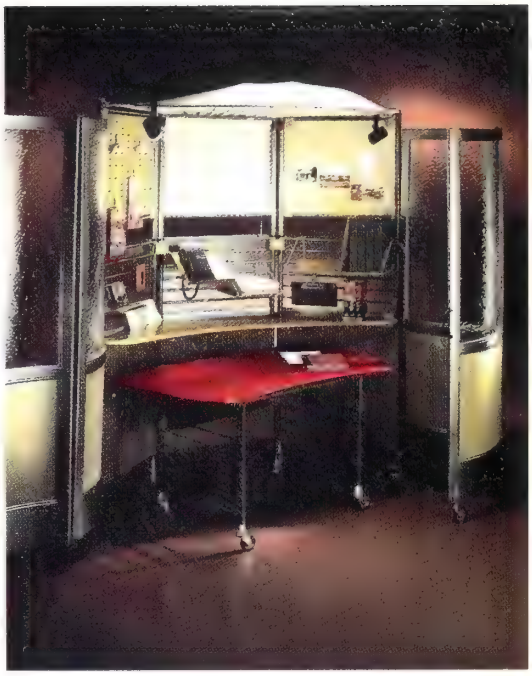
Office-furniture companies are designing **TOTAL WORK ENVIRONMENTS** that are all-in-one mini-offices, with accoutrements including computers, phones, files, faxes, and any other high-tech equipment that individuals need to perform their work as the 21st century approaches

setup, CD player, and file drawers, and because it's curved, it seems more spacious



HAWORTH CROSSINGS WORKSTATION
Haworth is focusing on mobility –putting wheels on desks, tables, and file cabinets, and managing the spaghetti of office cables

; here is incredible, and yet I'm leaving the building a lot I take my breaks in the fitness center. I'm having week-eetings on the stair-steppers. It's cool."

en there are those working either from home, a moving or both. These telecommuters need space and support n they tether up to home base. Hoteling gives it to . At Ernst & Young's Washington office, when employees they're asked for a personal I.D. and the dates they need e. Within 30 seconds, the system confirms whether a station or a meeting room is available.

ke any good hotel, this one has a concierge to take care ests. When workers arrive, their name is on a door, and files or supplies the employees have requested will be e, too. Their phone numbers have been forwarded—even gitized photo of their kids may be bouncing around the puter as a screen saver. "Once people get used to it, never want to go back" because they like not wasting traveling to and from the office, says Larry Ebert, na-l director of real estate for Ernst & Young. E&Y has ed eight offices and will soon convert seven more.

UCING CYCLE TIME. The longer workers "hotel," the less seem to focus on the office and the more they focus on customer. Deborah A. Lis, a 33-year-old, Los Angeles-d marketer from IBM, is equally comfortable in her home e, her car, or even a client's office. Since her operation ed to hoteling two years ago, she says she has cut the commuting on L. A. freeways in half; she spends more with customers, and she starts work earlier, calling cus-ers and colleagues from Tokyo to Torrance, Calif. "My omers are happy, and I'm selling," she says.

M now has about 20,000 sales and service professionals na-vide using shared offices—and according to a study in the *vard Business Review*, by shifting to hoteling, closing rutilized offices, and moving to cheaper locations, Big has shaved about $1.4 billion off its real estate expenses. raveling salespeople, of course, have long hoteled in real ls. And Silicon Valley pioneers such as Intel Corp. and Hewlett-Packard Co. have long favored large, open cubicle spaces to limit hierarchies and promote interaction. But the recent emphasis at the corporate level on project teams has demanded refinements in older schemes. For example, even the modest walls of conventional open-office cubicles can be too much of a barrier for some companies. That's what management discovered at In Focus Systems Inc., a Wilsonville (Ore.) maker of computer-projection systems. Vice-President Allan Alley was determined to shorten product-development times but says his engineers and marketers just weren't communicating. Open cubicles were "the worst of both worlds," he found. "There were no impromptu meetings and a lot of wasted space."

The answer for Alley turned out to be perhaps the priciest and purest form of the "cave and commons" concept available today: Steelcase Inc.'s Personal Harbors. Each $7,000 Personal Harbor is like a small, cylindrical booth with a door that can be closed, and because it's curved, it actually seems to increase the interior space. There's enough room inside for a flat work surface, computer setup, phones, a file drawer, and other standard desk items. There's also a whiteboard and built-in CD player.

But the key is that the harbors are grouped around a large puzzle-like table that can be broken into several pieces. When harbor doors are open, people move in and out of the group space to talk to colleagues, participate in meetings, or just listen in. "People will never leave a [traditional] meeting room," says Alley, but with this system, they stay in a meeting just long enough to contribute and go back to work. "Personal Harbor creates an atmosphere where we can rapidly develop products," he says.

Steelcase and its rivals in the $9.5 billion office-furniture industry—Haworth, Herman Miller, and others—are scrambling to crank out the right products for the new workplaces. They're adding mobility—putting wheels on desks, tables, and file cabinets and trying to manage the spaghetti of cables that office equipment can generate. Furniture used to

"The freedom I've felt being here is incredible...I'm having weekly meetings on the stair-steppers. It's cool"

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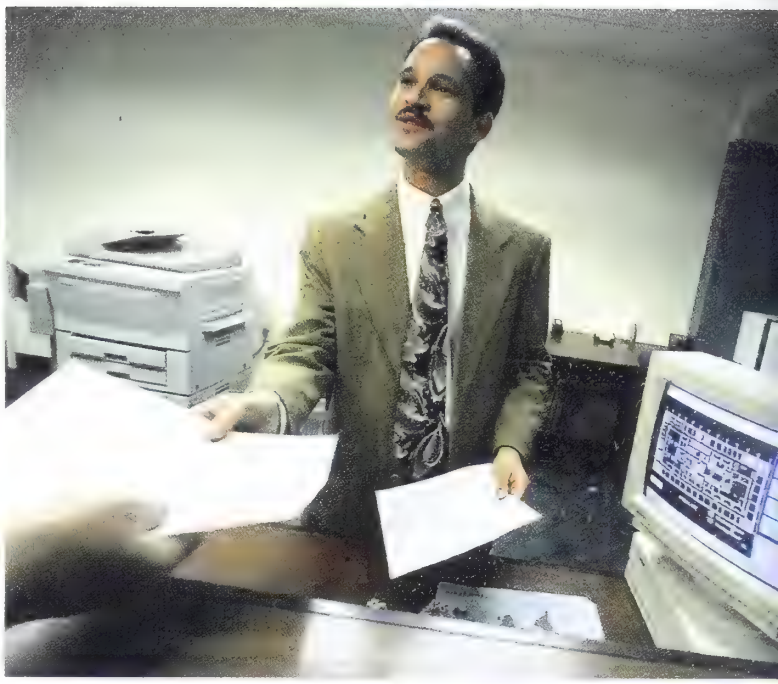
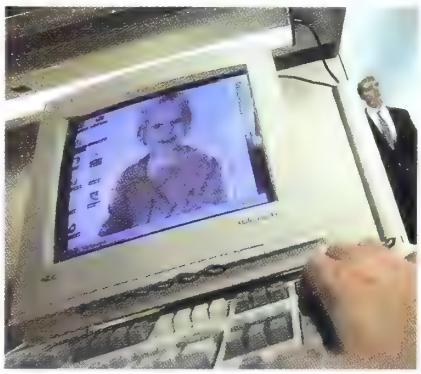
Sales- and service-based companies such as IBM, AT&T, and the major accounting firms increasingly are doing away with private offices and embracing **"HOTELING"**–a system to provide temporary spaces for workers when they are on-site. That saves money on rent and gets employees out spending time with customers. To accommodate employees' needs for meetings, or private desks, hoteling facilities allow workers to reserve an array of **FLEXIBLE SPACES**–from soundproof cubbyholes to conference rooms. They may even have a **"CONCIERGE"** to keep reservations straight and things running smoothly.



ERNST & YOUNG At the firm's Washington office, hoteling workers receive the services of a concierge and a name tag for their temporary office



When they arrive, hotelers find their phone numbers forwarded and maybe even a photo of their kids as a computer screen saver

project an image of stability. Now lines such as Haworth's Crossings furniture, which feature large wheels, speak directly to the need for flexibility.

Designers and companies complain they still have to do a lot of custom work to get just what they want. When Fallon-McElligott wanted to create its flexible space, it couldn't find the right equipment. So interior designer Gary E. Wheeler created award-winning "free-address lockers" that resemble armoires on wheels. They hold a computer, files, phone, and a desktop, as well as a special universal plug to simplify "docking" all the electronics. Employees literally wheel them around to create a wagons-in-a-circle effect for teams scrambling to make a deadline.

Cover Story

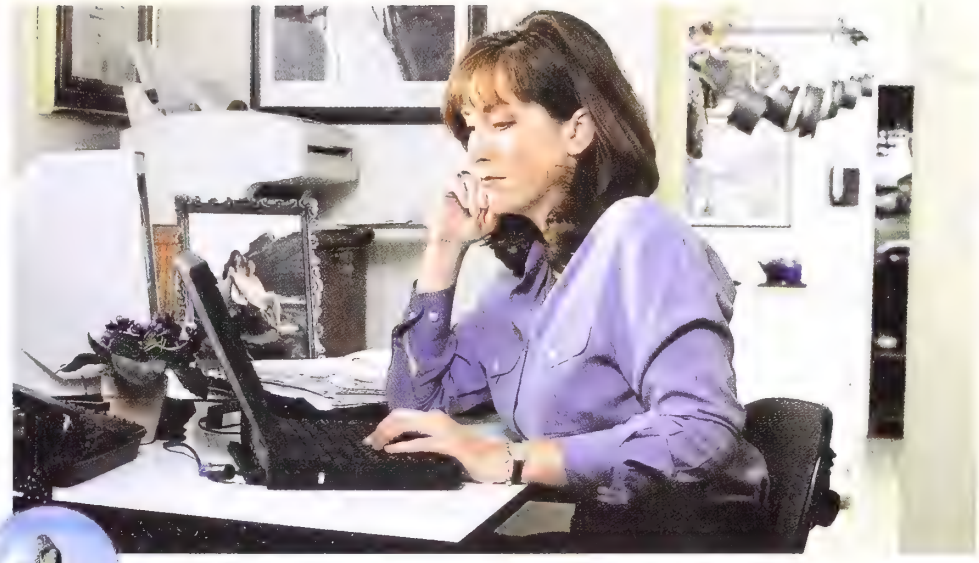
Some of these new office designs don't win awards—but they do address nitty-gritty business goals quite dramatically. Inhale Therapeutic Systems, a tiny Palo Alto (Calif.) startup working on novel drug-delivery technology, is one example. In a previous job, CEO Robert B. Chess served as a White House staff member in the Bush Administration. He observed firsthand the ultimate form of "office politics." His colleagues were obsessed with their "proximity to the President," he recalls.

From the beginning, Chess decided Inhale couldn't afford such nonsense. Everyone—which includes his 65 employees and himself—sits in large cubicles that he calls "bullpe with four other people of various ranks and functions- walls or barriers of any kind between them. "It forces ev body to talk to each other all the time," he says. Chess s the lack of private space also limits gossip, reduces the r for memo writing, and gets top managers scattered am the troops. Every nine months or so he even stirs the reshuffling everybody.

Questioning ancient assumptions has also allowed Mobil Corp. to save big bucks and help employees work better. ter a companywide study, Mobil realized existing office-sp guidelines, which assigned space largely by company ra were obsolete and occasionally even counterproductive. W company geologists achieved a certain rank, for exam the rules demanded they move to offices with window which they hated. Turns out, geologists refer constantly to seismic charts and maps, and windowed offices give them space to hang them.

Mobil reformulated guidelines by job function instead rank, and the company settled on basic space sizes that w

Los Angeles marketer
operates out of her
e office, her car, or
a clients' offices to
s on customer needs



Companies don't talk about "work at home" programs anymore; they talk about **"WORK ANYWHERE, ANYTIME"** programs. Laptops, fax machines, cellular phones, networks, E-mail, and voice mail are making **TELECOMMUTING** a way of doing business that satisfies strategic goals of spending more time with customers and using commute time better. After all, does it matter whether that critical voice-mail message you received was sent from a client's office, an airport, or a traffic jam?

changeable. For example, uare feet is now the stan- , one-person office; 150 e feet is a two-person of- or a manager's office; 300 e feet is a conference room file-storage office. That re- s a half-dozen more stag- l sizes just for personal s. The changes will likely Iobil's costs by $100 million r.

metimes, a big up-front tment in redesign pays unexpected productivi- t West Bend Mutual In- ce Co., Senior Vice-Presi- Ronald W. Lauret says the mes of his local Wisconsin ie climate make personal ort a huge issue for his ers. Surveys show that trait ared by 15% to 30% of of- vorkers nationwide, who say are uncomfortable during ay. So West Bend invested uipment from Johnson Con- Inc. called Personal Envi- ent Manager that lets ers adjust the temperature, air, and even ambient noise in their cubicles. Re- hers from Rensselaer Polytechnic Institute have studied mpact of the PEMs on West Bend's productivity. They l workers with PEMs were at least 3% more productive other workers. Lauret thinks the gain may be more in ange of 5% to 10%. Plus, Lauret says, the novel work- ons have become an asset for recruiting and retaining ers. He believes the fresh-air component of the sys- may be keeping workers healthier, too. "To make our mers happy we have to give that level of satisfaction to ssociates," Lauret says.

STIMULATED EMPLOYEES? One element of West Bend's rience that all companies would do well to heed is the of listening to employees and trying to understand how actually work in today's fast-changing world. At Sun osystems Inc., Chief Information Officer William J. chel feels that American business has finally become ortable enough with technology to make more radical of- chemes possible. He and his colleagues travel constantly, using Web pages in lieu of face-to-face meetings to keep on projects. When he looks around Sun these days, he s, "nobody's ever in their office." So why should Sun to provide them, heat them, and keep them clean? The any is wrestling with just those questions, Raduchel by providing hoteling in Europe and various team-ori- l designs in new constructions.

ere are still many unknowns and a few rough spots in of these new designs. Any change, notes Ann Bames- er, who is implementing alternative-office schemes at "can enable you and disable me." Open-plan office de- may facilitate so much interaction that some employees feel overstimulated and distracted. "Sometimes you've got to put your hand over the phone and say, 'Hey, hold it down,'" admits a sales manager at Inhale.

And what makes perfect sense today could quickly be eclipsed by changes in technology tomorrow. Bill Moggridge is a principal with industrial-design leader IDEO in Palo Alto, Calif., which is helping Steelcase integrate technology into new workplace tools. Moggridge notes that the sheer physical "volume of technology is now halving about every five years," and that will have many implications for the workspace, some unpredictable. Think about it: Roomfuls of machines once contained less computing power than a single laptop has today. Telephone switching equipment now requires only small, chip-laden panels. Elaborate videoconferencing rooms are fast giving way to desktop conferencing power. And centralized network capacities are growing much faster than the wires into homes and hotels, meaning some wired telecommuters may feel like second-class network surfers unless they're in the office.

The good news, however, is that those involved in forging the new workplace realize there is no ideal, no cookie-cutter workplace template they can plop on top of organizations. And it's a rare alternative-office space that doesn't get adapted as trial runs reveal elements that don't work or could work better. Says architect Rae: "One thing we've realized is that not only must we assess what's possible but how far and how fast it can move." That would seem to signal an end to the age of the corporate "edifice complex" and a new era of workspaces that work.

By Joan O'C. Hamilton in San Francisco, with Stephen Baker in Pittsburgh, Bill Vlasic in Detroit, and bureau reports

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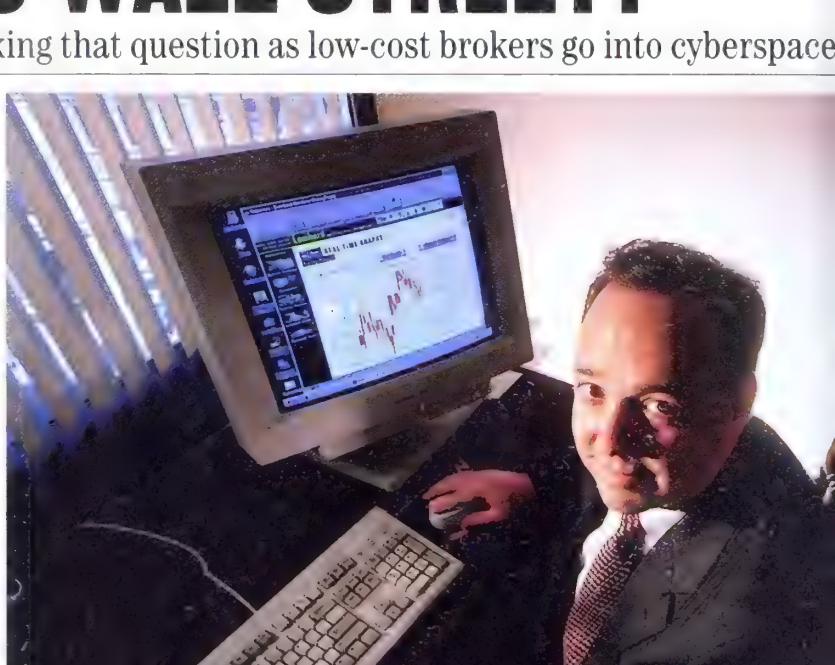
Increasingly, investors are asking that question as low-cost brokers go into cyberspace

Meet Ed Harrison, who could be Merrill Lynch & Co.'s worst nightmare. The 51-year-old Northrop engineer is a small investor who makes several trades a week. But you won't find him using a full-service broker or even a conventional discount broker.

Instead, the Santa Clarita (Ca.) resident is a loyal customer of Lombard Institutional Brokerage Inc., a tiny San Francisco discount broker that began offering trading on the Internet last September. Harrison likes Lombard's low trading fees: His previous broker charged as much as $160 a trade, vs. Lombard's $36.50. But what he really likes is to execute his own trades anytime he wants by computer and to gain access, via the Internet, to lots of free and low-cost investment information. Lombard even offers a free quote service that allows him to track a portfolio of 50 stocks. "My broker was so nice, but boy, they were robbing me," says Harrison. "All he ever did was place my trades. I can do that for myself."

The Internet has arrived on Wall Street, and not everyone is too happy about it. Over time, the Net, a vast computer interchange accessible to anyone with a computer and a modem, could fundamentally restructure the brokerage business and grab the active traders who are the Street's best customers. The situation is similar to the mid-1980s, when Charles Schwab & Co. shook up the big full-service behemoths such as Merrill Lynch by offering discount commissions.

CAUGHT FLAT-FOOTED. The new wave of online upstarts, such as Lombard and E*TRADE, could pose a similar challenge. "Lombard is doing a Schwab," says Nick Zaharias, a marketing executive at Netscape Communications. "What Schwab did to the full-service firms, Lombard and E*TRADE will do to Schwab and the full-service firms." Adds Sherif A. Nada, president of Fidelity Brokerage Group: "The Internet is a big threat to the current system. I think the full-service firms are worried about it."



The major firms have a huge stake in the status quo. They charge high commissions that support an array of services, sprawling networks of brokers, offices, and research staffs. To keep customers tied to their brokers, the firms equip brokers with computers to execute trades and access proprietary investment information for their clients.

The Internet brokers take a different approach. They keep their overhead low by having no brokers and few offices, with the Internet allowing customers to trade on weekends and after work when brokers aren't available. The Internet also allows customers to obtain everything from stock quotes to mutual-fund rankings. "If you can get information and trading over the Internet, why do you need a broker?" says Gary Meshell, director of electronic financial services at Price Waterhouse. "The firms are so

Full-service broker "are so afraid of giving people information," says Lombard CEO Eric Roach. "All our information is free"

UPSTART: ROACH CHARGES $36.50 A TRADE, VS. $160 AT AN OLD-LINE FI

of giving people information," says ard CEO Eric Roach. "Our mission empower the investor. All our in- tion is for free."

ecutives at full-service firms mini- he threat of Internet trading, which lo not offer. They point out they re- l most of their customers when er discount brokers siphoned off ess in the 1980s. And the new firms isly lack the financial strength and ility of the big boys. "It's really concern," says Jay Mandelbaum, xecutive vice-president for market- ho oversees Smith Barney Inc.'s ite. The Internet just can't replace h-and-blood broker's counsel. "We find investors want ongoing advice and service," he says. Internet trading? "Our clients don't want it."

Schwab and Fidelity Investments have also been caught flat-footed by the cheaper Internet brokers. But both plan to roll out Internet trading later this year. "Eventually we see electronic trading becoming a very dominant channel," says Elizabeth G. Sawi, an executive vice-president at Schwab.

At present, full-service firms appear to have little to worry about. The first quarter of 1996 produced record retail brokerage profits, and many are racing to hire more brokers. And truth be told, very few investors trade electronically—either on the Internet, which has attracted several discount brokers in the past year, or through proprietary e services. These services, which been around for years, include ab's e.Schwab, Fidelity On-Line ss, and PC Financial Network.

LATORY HURDLES. Consider Lom- Of its 31,000 discount brokerage mers, only 3,100 trade on the In- t. Forrester Research Inc. estimates are currently just 800,000 online Internet brokerage accounts. For- r estimates there will be 1.2 million accounts by 1998, but that is tiny ared with 60 million conventional rage accounts in the U. S.

ere are also legitimate impediments oth full-service and discount firms resolve before they plunge into In- t trading. One is security: Can mon- n be safely exchanged electronically? oard sidesteps this by billing cus- rs the same low-tech way any bro- ge firm does. "The technology is not there," says Jeff Anderholm, vice-president for electronic marketing at Fidelity Investments.

Brokerages are also running into regulatory hurdles, since the industry's regulators have not kept pace with the Internet's development. For example, "No [securities] firm lets their brokers use E-mail," says Pim Goodbody, vice-president of the Securities Industry Association. The industry is unsure whether to treat E-mail messages to brokers like phone calls, which are not monitored, or like regular mail, which must be read by a broker's branch manager under industry regulations.

So far, visiting full-service and discount firms' Web sites are mostly a big disappointment: They are glorified marketing brochures with little substance. Take Prudential Securities Inc.'s Web site. There is an investment personality quiz, just two research reports that must be ordered, twice-daily market commentary, and market indices updated weekly. "It's more in the PR category than the transaction category," says Daniel H. Case III, chief executive of Hambrecht & Quist and chairman of the SIA's new committee on technology. "All these guys talk about the Internet but they can't spell it."

There are some bright spots. Last January, Prudential Securities became the first full-service broker to offer customers real-time Internet access to account information, such as market values of securities and current balances. "All clients want to know is, how am I doing?" says Stanley Witkowski, director of strategic client initiatives at Pru Securities. Customers now have "three bad choices," he says: newspaper stock quotes, calling their broker during business hours, or waiting for their statement every 30 days. "I think people will relate to us better if we keep them in constant touch with their own financial sources," says Witkowski.

CROSS-SERVICES. Smith Barney's Web site has at least a little meat. In exchange for registering, browsers are teased with a few research reports with specific stock and futures recommendations, such as the firm's top 10 stock picks, stock quotes, and instant links to other Web sites.

The full-service firms are walking a fine line. Most are simply using the Internet to maintain the client-broker relationship: offering paltry servings of investment data but no trading. There's a risk, though, that they will lose younger customers, who may prefer to trade electronically.

The big firms may also miss out on the financial services' holy grail that the Internet will make possible: brokerage, banking, and checking services all rolled into a nice neat package. If full-service brokers don't embrace the Internet wholeheartedly, banks and mutual funds with a wide array of Net and online offerings could steal their customers. Says Ajit Kambil, assistant professor at New York University's Stern School of Business: "If firms choose not to play on the Internet, they'll be left out." Just ask Ed Harrison.

By Leah Nathans Spiro in New York, with Linda Himelstein in San Francisco

THE STREET MEETS CYBERSPACE

FULL SERVICE/DISCOUNT BROKERAGE FIRMS

CHARLES SCHWAB http://www.schwab.com
Offers online trading via proprietary software.

FIDELITY INVESTMENTS http://www.fid-inv.com
Offers online trading via proprietary software.

MERRILL LYNCH http://www.merrill-lynch.ml.com
Three general research reports, no specific stock picks. Delayed stock quotes.

P C FINANCIAL NETWORK Offers online trading through America Online and Prodigy.

PRUDENTIAL SECURITIES http://prusec.com
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SMITH BARNEY http://www.fid-inv.com
Specific stock and futures recommendations links to other web sites. Must register first.

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http://www.lombard.com
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E*TRADE http://www.etrade.com
Offers Internet trading.

PAWWS http://pawws.secapl.com
Financial Network. Internet trading through three brokerages.

MISCELLANEOUS

WEB FINANCE
http://nestegg.iddis.com/webfinance
An Investment Dealers' Digest electronic magazine. Links to web sites of 50 brokers.

SILICON INVESTOR http://www.techstocks.com
A wealth of free investment information and discussion groups on tech stocks.

DATA: BUSINESS WEEK

INVESTMENT BANKING

SILICON VALLEY'S HOT STARTUP IS...A BANK

A raid on Morgan Stanley puts Deutsche on the tech map

About 50 of Silicon Valley's venture-capital elite streamed into the posh Stanford Park Hotel in Menlo Park, Calif., on Apr. 16. Over a breakfast of eggs and link sausages, they listened to Carter McClelland, chief executive of Deutsche Morgan Grenfell/C. J. Lawrence, the U. S. investment banking arm of Germany's giant Deutsche Bank, and Frank Quattrone, until recently a star investment banker with Morgan Stanley & Co. The duo unveiled a new firm, DMG Technology Group, headed by Quattrone, that will offer everything from cutting-edge industry research to underwriting of small startups.

Their pitch seemed to impress even the most skeptical attendees who have seen bankers come and go in this sizzling—and lucrative—niche market. "They clearly have the interest of Silicon Valley venture capitalists," says Douglas M. Leone, a general partner at venture firm Sequoia Capital who attended the breakfast. Though Deutsche Morgan Grenfell so far has carved out only a modest presence in U. S. investment banking, rivals are wary of Deutsche Bank's awesome size ($450 billion in assets), global reach, and strong ambitions in this country.

EASTER BLITZ. The meet-and-greet session came less than two weeks after Deutsche Morgan Grenfell lured Quattrone, bankers George Boutros and Bill Brady, and six others from Morgan Stanley's Silicon Valley office in Menlo Park. The Easter weekend hiring blitz crippled the firm's tech division. Morgan Stanley's Menlo Park office has enjoyed a commanding presence in the Valley. "The neutron bomb just hit Morgan Stanley's corporate-finance department," says Sequoia's Michael Moritz. DMG, which says it plans an eventual staff of 75, picked off three other Morgan Stanley tech specialists in London.

Morgan Stanley disputes the extent of the damage and insists that it hasn't lost any tech clients. The firm says that only three bankers from its Menlo Park outpost defected and that the office still has a dozen bankers who will be reinforced by a senior banker from New York. Further, the firm says its equity distribution team is firmly in place, namely, its highly ranked tech research group and the equity salesmen and traders who are necessary to support initial public offerings. That's in part due to a last-minute plea from Joseph Perella, Morgan Stanley's head of corporate finance. "It makes no sense to me," says one veteran New York banker. "DMG doesn't have the equity distribution that will permit Quattrone to land the big tech deals."

QUATTRONE

Frank Quattrone, lured by a stunning multimillion dollar deal, and 16 others bolted to Deutsche Bank. Joe Perella, Morgan Stanley's corporate finance chief, helped stem the defections

PERELLA

The white-shoe firm isn't sitting around licking its wounds. "I don't usually get this many calls from Morgan Stanley," says Ann Winblad of Hummer Winblad Venture Partners. Investment banking head Robert G. Scott flew to Silicon Valley on Apr. 15 to reassure clients about his firm's commitment to technology. "Morgan Stanley's bench is very deep and very strong," says Scott, coincidentally flew to San Francisco f New York on the same plane as D McClelland. "We consistently hear l from clients that they understand relationship is institutional."

MAD SCRAMBLE. But no one is wai for the dust to settle. Instead, a scramble is under way by bankers a firms to hire or retain talent—and t after Morgan Stanley's technology cli which includes such plums as Nets Communications, Hewlett-Packard, Oracle. "It's an absolute sea chang the competitive environment out he says Steven F. Strandberg, a directo Merrill, Lynch & Co.'s technology gr

Merrill plans to disp several senior executive Silicon Valley, including D H. Bayly, co-head of inv ment banking. Rober Stephens & Co., a San F cisco-based technology tique, just reviewed Mor Stanley's client list and gan a sales push, along such rivals as J. P. Mor Goldman Sachs, Alex. Br & Sons, and Hambrech Quist. Quattrone and o DMG executives even vis Morgan client Silicon Gr ics Inc. after their break "They're gunning for business, but there's no sion yet," says C. Rich Kramlich, a Silicon Grap director and managing ner of venture firm New terprise Associates. Quatt and McClelland declined comment.

It's too early to tell which inv ment firms will emerge as winner the technology-banking war. The look is rosy for investment bank and research analysts. DMG has sign stunning multimillion dollar cont with Quattrone that contains an usually sweet chunk of the tech gro pretax profits. Steven Brooks, hea global technology investment bank at UBS Securities, a sidiary of the Sw bank, says that "it's ing to take more t money to build a g team." With gazill behind it, Deuts Morgan Grenfell seriously test t maxim.

By Linda Himels in San Francisco, Leah Nathans Spir New York

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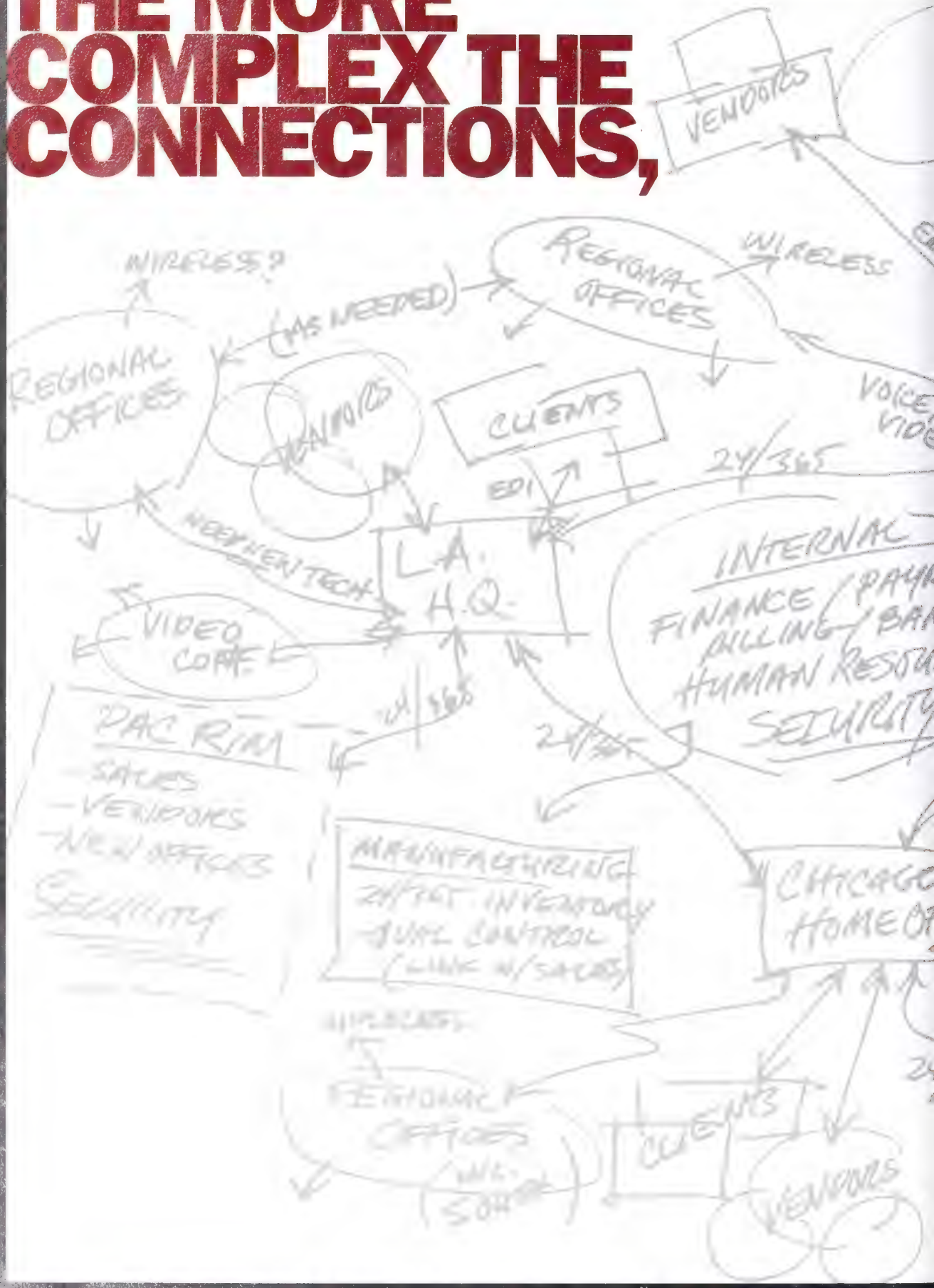

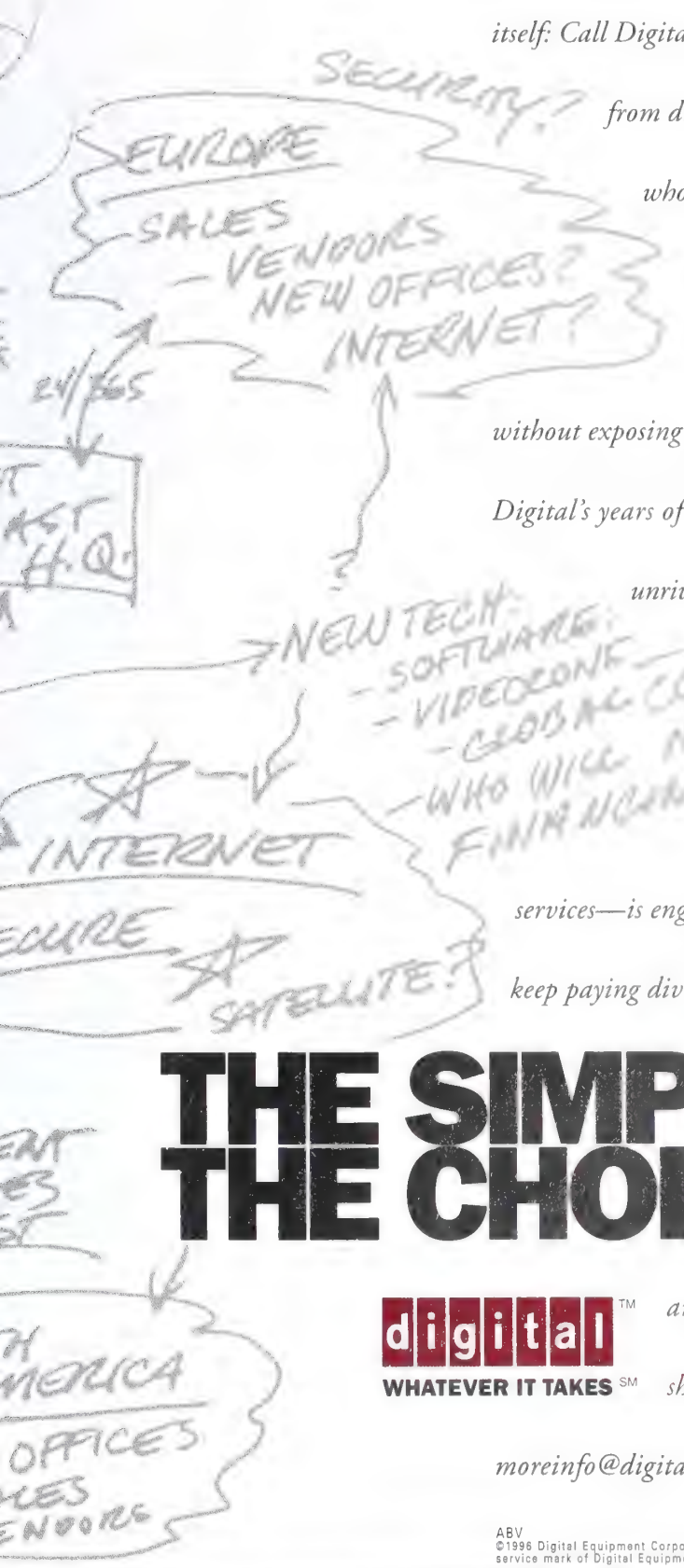

How ironic. As the demands of your far-flung business network become more painfully convoluted, the solution becomes simplicity itself: Call Digital. You need to weave hardware and software from different suppliers into a seamless, productive whole? Digital's strengths in multi-vendor service and support are unequalled. You want to harness the competitive potential of the Internet, without exposing your company to information highwaymen? Digital's years of experience in secure public networking are unrivalled. Above all, you have to plan today for an enormously uncertain tomorrow? Every Digital solution—from CPUs to storage, asset management to migration services—is engineered to keep working, to keep evolving, to keep paying dividends come what may. In other words, if it's your job to connect an enterprise with its data, its customers, its partners and the world, your shortlist should be very short indeed. Call 1-800-DIGITAL, e-mail to moreinfo@digital.com or visit us at http://www.digital.com.

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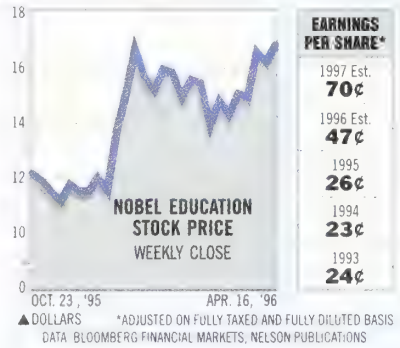
BY GENE G. MARCIAL

NOBEL COULD WIN A GOLD STAR

Whether or not education becomes a hot issue in this year's Presidential elections, there are few hot educational issues on the Street. But a stock that may heat up is Nobel Education Dynamics (NEDI), the U.S.'s largest operator of accredited private elementary schools. Nobel, which also provides child care before and after regular school hours, targets middle-income families with children in preschool to eighth grade.

SCHOOL HOTSHOT



▲DOLLARS *ADJUSTED ON FULLY TAXED AND FULLY DILUTED BASIS
DATA: BLOOMBERG FINANCIAL MARKETS; NELSON PUBLICATIONS

It's "our No. 1 stock pick in education," says Carolyn Losty, an analyst at Pennsylvania Merchant Group. "Growing dissatisfaction with public schools," she says, will fuel demand for alternative providers that charge fees within the reach of middle-income families. Tuition at Nobel averages $5,500 vs. $7,500 in other private nonparochial schools, notes Chairman Jack Clegg.

Losty says demographics "portend well for private schools—as parents get frustrated with big classes, diminishing funding, government programs that dilute a teacher's focus, and other problems plaguing public schools."

So Nobel's earnings, she thinks, will grow fast—from 44¢ a share this year to 68¢ in 1997. She expects Nobel to add 11 schools this year and 12 next, possibly augmented by acquisitions. Nobel now has 106 locations—59 schools and 47 child-care centers. Many of the centers will be converted into schools but will still provide child care.

Big investors that have bought into Nobel: Allied Capital Management, with a 10% stake, and investment firm Gilder, Gagnon, Howe, with 5%.

Clegg, who has a 9% chunk, is confident he can sustain Nobel's rapid growth. He says revenues will jump to $60 million this year, up from $42 million last year, not including projected acquisitions.

Analyst Bill Bavin of Ferris, Baker Watts, who recommended the shares in December at 11½, remains bullish even though they've climbed to 16¾. Bavin thinks Nobel is still an "attractive play": Its schools provide "superior education at an affordable price."

IVAX: HEADING BACK DOWN THE AISLE?

Has Ivax (IVX) returned to the merger trail? Several Ivax-watchers think so, despite the unraveling in November of its merger with Hafslund Nycomed. One takeover investor says: "It's precisely because of the aborted merger that we think another deal is brewing." With Hafslund poised to spin off its energy operations and become strictly a pharmaceutical house, this Ivax bull insists the two companies will try again to merge—this time on terms more palatable to Ivax shareholders. But Hafslund is not the only pebble on Ivax' beach: Bristol-Myers Squibb is rumored to be interested in Ivax to expand its generic operations.

Ivax shares jumped 1, to 27, on Apr. 17, after Merrill Lynch analyst Richard Vietor said the recent introduction of two drugs—inhaled Albuterol and antibiotic Cefadroxil—would spur Ivax earnings. Cefadroxil is the only generic version of Bristol-Myers' Duricef, which has sales of $140 million. Analysts say Cefadroxil could easily generate $50 million of high-margin sales in its first year. Ivax is also filing for approval of Paclitaxel, which could "dethrone Bristol-Myers' anticancer drug Taxol from its current position" in a $1 billion market, says Ronald Stern of Buckingham Research. Taxol's patent will expire in 1997.

FROST: *Coy on any merger talk*

Ivax CEO Phil Frost is coy when asked if Hafslund is back in the picture. "We maintain very cordial relations," he says. "We do a lot of business together. We'll see."

Is it true that Bristol-Myers has its eyes on Ivax for a takeover? Responds Frost: "I can't comment on such sp ulation. Bristol-Myers is a great co pany....We are always looking at portunities—mergers, acquisitions a new markets."

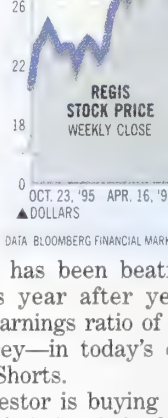
He adds: "We are going full bl into Latin America. We have signe strategic alliance with a partner in gentina." Also in its plans are Boliv Brazil, Chile, Mexico, Peru, a Uruguay. Frost projects that Ivax meet—if not beat—earnings expec tions of $1.30 a share this year. Fr says. "We'll make everybody happ A Bristol-Myers spokesman says company doesn't comment on specu tion about acquisitions.

REALLY BIG HAIR AT REGIS

The haircut business is growing fast as, well, hair. And hairdos ha been kicking up the stock of Re (RGIS), the world's largest owner a operator of mall salons. First featu in this column on June 22, 1992, wh the stock was at 6, Regis now trad at 32. Has it reached a peak?

Not if you listen to Binkley Shor who runs $1.5 billion in assets Wellington Management in Boston. portfolio of mid-size-cap stocks, which holds 3% of Regis' shares, first bought in when the stock was around 6. "For as long as Regis continues to meet our expectations, we'll stay with it," Shorts explains. He figures Regis will make $1.50 a share this year, and $1.75 next year, up from last year's $1.25. Regis has been beat analysts' estimates year after ye Trading at a price-earnings ratio of the stock isn't pricey—in today's vironment, argues Shorts.

CLIPPING RIGHT ALONG



DATA: BLOOMBERG FINANCIAL MARK

A New York investor is buying another reason: He feels Regis is cl to buying 150 salons of a national m merchandiser, which he figures will a $30 million to revenues and at le 7¢ to 10¢ a share to the bottom li These projections don't include t still-secret acquisition, says this pro

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EDITED BY AMY DUNKIN

JAPAN SWINGS INTO SPORT-UTES

HOT WHEELS

Like a lot of baby boomers, I've outgrown my present car. Now I'm looking for something with lots of space to replace the sexy but impractical two-seat Toyota MR2 I bought during my second adolescence. My reason? I just acquired a dog. A big dog.

So I'm shopping for a sport-ute—short for sport-utility vehicle—or SUV. It's the hottest segment of the market: More than 1 in every 10 cars sold last year were sport-utes, and they're accounting for 13% of vehicle sales so far this year. They have turned into a status symbol, dampening demand for sports and luxury cars. Many boomers prize the go-anywhere, tote-anything utility of sport-utes. The downside? They're gas guzzlers.

HEAVY DUTY. By and large, the Japanese had been excluded from this booming market. That's because, early on, U.S. Customs officials classified imported sport-utilities as trucks, and thus subject to a 25% duty. Then the strong yen drove prices of Japanese vehicles into the stratosphere. Also, Japanese planners mistakenly chose to devote their precious development resources to luxury cars about the time when Americans wanted much more utilitarian vehicles.

But now the Japanese—having skirted the duty by convincing Customs officials that their SUVs are really cars, not trucks—are moving into the sport-utility vehicle market in a big way. And recent reviews by car magazines and rating services say the new Japanese sport-utes have better quality, durability, value, and on-road ride and handling than their wildly popular American counterparts.

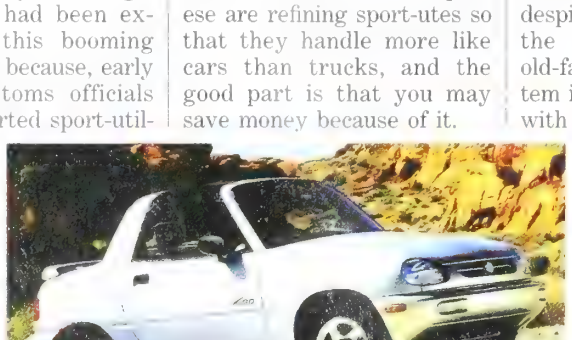
So I set out to drive a half-dozen brand-new Japanese models, all of them introduced to the U.S. market within the past six months or so. They ranged from the quirky (meaning really weird) Suzuki X-90 to the tony (meaning really expensive) Lexus LX 450. What I discovered was that the Japanese are refining sport-utes so that they handle more like cars than trucks, and the good part is that you may save money because of it.

SUZUKI X-90

Base Price:

$16,500

This rough rider is short on cargo space but perfect for Generation Xers



I started with the Suzuki X-90, even though it met none of my criteria. The open-top two-seater has no cargo space, but I couldn't resist this oddball. It's a true four-wheel-drive vehicle, with high enough clearance to take it off-road, but it's a rough rider with lots of rattles. The short wheelbase means that there's much lurching on segmented-concrete freeways, and I had trouble with the over-the-shoulder visibility in the driver's-side blind spot. Also, despite the flashy upholstery, the controls are decidedly old-fashioned: The audio system is a maze of tiny buttons with even tinier labels, and there's nary a knob in sight. But the $13,500 X-90 ($1,000 more for the four-wheel drive version) is a real head-turner and totally irresistible. It would be great for your Generation-X kids at college.

A better example of the new breed of Japanese sport-utes is the Toyota RAV-4, introduced in January. The alphanumerics stand for "recreational active vehicle, four-wheel drive." It looks like a truck but drives like a car. That's because it's built atop a Toyota Celica frame, with parts borrowed from the Camry and Corolla. Still, c in this mini-SUV, sit high enough the road to feel there with all Ford Explorers slightly above Jeep Cherok There's no sense you're going to over when you're roundi corner, and while the seats can't be removed w out a socket wrench, they ily fold up against the b of the front seats to pro lots of space for your gea

TOYOTA RAV-4

Base Price:

$15,648

It drives like a car—and rear seats fold up to provide lots of space

TWO SUNROOFS. The RA which starts at $15,000 f two-door (or $2,100 more a four-door, four-wheel-d version), isn't perfect. windows rattle at free speeds if they aren't c pletely up or down, and engine feels underpowe going up long grades. you can see the results Toyota's cost-cutting: S belts aren't height-adjusta the wipers aren't inter tent, and there's no ligh the ashtray. Still, it has s cool features. For $600 ex the two-door versions c with two sunroofs, wh

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streets, Toyota is pursu-
he macho, off-road capa-
es of its 4Runner, albeit
all the amenities Amer-

icans have come to expect in their cars.

The worst thing about the 4Runner is the stretch it takes to get into the thing. The step up is a full five inches higher than the Pathfinder's, and three inches more than the average American sport-ute. Toyota, though, has beefed up the engine on the $19,500 ($21,500 with four-wheel-drive, or $25,000 with a six-cylinder engine) 4Runner, and it has changed the rear door from a hatch and tailgate to a single-piece liftup configuration with a power window, a big improvement. The $22,399 Nissan Pathfinder, while it doesn't look very different from the previous version, is much more carlike. It's not nearly as high off the road and doesn't have the body roll that can make sport-utes feel unstable. The Pathfinder also has more creature comforts. The back of the console, for example, has slide-out cupholders for backseat passengers, along with a 12-volt outlet for portable computers, say, or a cellular phone.

RIDING HIGH. Even though I can't afford them, I also tried the luxury SUVs, the Acura SLX and the Lexus LX 450. Neither is totally new. Just as the Honda Passport is a rebadged Isuzu Rodeo, the Acura SLX is really an Isuzu Trooper. And the venerable Toyota Land Cruiser has been luxuried and leathered into a Lexus model.

The Acura is huge inside, and you feel as if you're sitting on a throne, high above the surrounding traffic. But cornering is a bit scary, giving the sensation that the entire car is tipping over. Outside, the engine sounds like a truck, but the car is insulated enough that you can't hear it inside. A nice touch: The SLX has cornering lights that illuminate turns when the directional signals are on. It starts at $33,900, but a starter Trooper can be had for as little as $25,000.

The Lexus is the more successful transformation. Toyota's Land Cruiser has always qualified as a luxury car. If it were to be introduced today, it would be a Lexus. The carmaker has made it even more so, with leather seats, woodgrain finishes, and a sticker price of $47,500 instead of $40,000. There are other changes as well, including a suspension that is 15% softer and optional cell phones and CD changers that fit perfectly into the center console.

SAFETY FEATURE. Finally, just for fun, I finagled a Honda CR-V for a weekend. This SUV won't be introduced into the U.S. until the end of the year, and Honda promises that it will be priced at under $20,000 for a version that Honda calls "real-time" four-wheel drive: It automatically switches when any wheel starts slipping. In Japan, it wiped out Toyota's RAV-4 when it was launched because it's so much bigger inside. While it drives like a car—a Honda Civic—it doesn't give the typical sport-ute feeling of riding high above the traffic. But it's the only one that comes with a picnic table as standard equipment as well as a waterproof bin under the cargo floor that can be used as an ice chest.

My personal favorite? The Toyota RAV-4, for its civilized handling, generous space, reasonable sticker price, and striking good looks—although I'm tempted to wait for the Honda CR-V. A close second is the Nissan Pathfinder, again because it handles more like a refined automobile instead of a cheap pickup. As for Coby, my 120-lb. mastiff puppy, he doesn't really have a preference. He drooled over all of them. *Larry Armstrong*

HONDA CR-V
Base Price (est.):
$20,000

It has a picnic table, but won't hit the U.S. until the end of '96

NISSAN PATHFINDER
Base Price:
$22,399

The interior offers slide-out cupholders and an outlet for PCs or a cell phone

LEXUS LX 450
Base Price:
$47,500

Leather seats, woodgrain finish, and a hands-free phone give the feel of luxury

BOTTOM LEFT PHOTOGRAPH BY DEAN SIRACUSA

IN SEARCH OF A SAFER AIR BAG

Snap, crumple, pop. It's the most reassuring sequence of sounds that can be heard during a car accident. After the shocking snap of metal smashing into metal comes the crumple of the car's reinforced steel structure absorbing the impact. Last is the pop of air bags inflating to cushion occupants.

Air bags, which began gaining popularity in the late 1980s, are already on 48 million U.S. vehicles. They're credited with saving more than 1,500 lives—a figure that should grow to 4,000 by yearend as air bags show up on more vehicles. Yet even as the auto industry is stuffing air bags into more places inside cars than ever before, it is struggling to make the safety devices safer. Worried about dozens of reported air-bag-related deaths, companies are racing to install high-tech sensors to soften the blow when an air bag hits a tiny occupant. "Carmakers are spending billions to make air bags smarter," says Charles Hurley, senior vice-president at the Insurance Institute for Highway Safety.

FATAL. Oddly enough, it is air bags' life-saving rapid fire power that has become a hazard to some. To catch people quickly in an accident, air bags explode into the passenger compartment at 150 miles per hour. This has proven to be a fatal force for 36 occupants who were too small and too close. "Air bags are designed for adult bodies, not for children," says Volvo spokesman Dan Johnston. Volvo advises owners to keep kids out of harm's way by strapping them into the backseat.

HOT WHEELS

Another important piece of advice to parents is not to place rear-facing child seats in front of air bags, because deployment could break an infant's neck. Four such deaths have been recorded so far. By the end of the decade, federal regulators will require carmakers to install bags that automatically shut off when a child seat is riding up front.

For now, auto makers are offering stopgap measures, such as a key-activated switch on the Ford F-150 and Ranger pickups that shuts off the passenger bag. "The problem is an immediate one," says Bill Eagleson, Ford's manager for occupant protection. "Every day, we're making bags designed with some inflation-injury risk."

Some 20 deaths have been reported involving small women driving too close to the steering wheel when the bag deployed. And a dozen fatalities occurred among children 3 to 9. Investigators say the children were not wearing seat belts. However, the grandfather of a 5-year-old Utah boy killed last fall contends the child was wearing a seat belt. He's suing General Motors and air-bag maker Morton International.

To confront the growing problem, the auto industry is developing sensors that can detect an occupant's size and adjust the speed and size of a deployed bag accordingly. Some sensors could even disable the bag if a briefcase or newspaper occupies the front passenger seat. Optimistic suppliers say such systems could be in place by 2001, but carmakers think it will take a decade. "You sure don't want an air bag not to function cause your passenger is re ing a newspaper," says W dell Lane, director engineering at air-bag m er AlliedSignal.

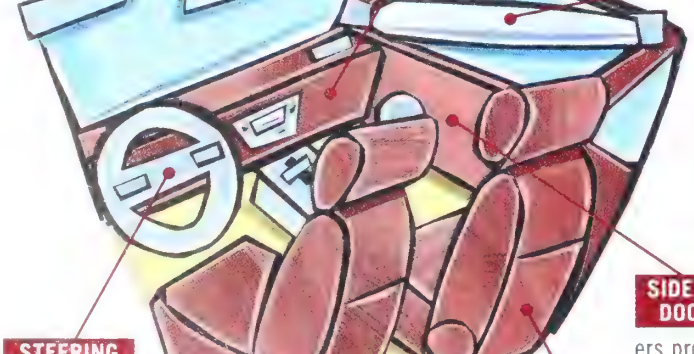
MARSHMALLOWS. The ne for smarter air bags is gro ing acute. Within five yea bags bursting from doo seats, roofs, headrests, a below the dashboard are pected to join the drive and passenger's devices, tu ing car interiors into gi marshmallows in accidents the future.

Already, Volvo offers si impact bags that deploy fr the front seats. Merced Benz has bags that pop of the doors. This summ BMW will also offer do mounted bags, wh the Kia Sporta from Korea will f ture a bag t swells out of dash to reduce k injuries. BMW will fer another twist early 1997, wher introduces a tubu bag that sprin from the inter roof above driver's and pass ger's doors to p tect heads.

Side air bags likely to catch faster than front bags did. "By '99 model year, j about every made will have s bags, and truc will have them 2002," says DRI/ Graw-Hill anal Lincoln Merrih That is, if carm ers and suppli can hold do prices. Front bags now about $100 to a car's cost.

Once the side bags are tablished up front, they're pected to migrate into backseat—the kids' s haven. But if the pop of bags is going to be as re suring to children as it is adults, the auto industry to step on the gas to ma them safer. *Keith Naugh*

Popping Out All Over



DASHBOARD Most new cars have front-impact passenger bags and most trucks will within two years

INSIDE ROOF BMW is planning a head-protecting tubular air bag (shown inflated) from the roof

SIDE OF DOOR Some carmakers prefer to stuff side-impact bags into front doors

STEERING WHEEL Virtually all new cars and trucks come equipped with driver's air bags

SIDE OF SEAT Air bags now spring from seats to protect drivers and passengers in side crashes

BACKSEAT PROTECTION Eventually, air bags will deploy from back doors to provide a cushion to backseat riders

ORLY: *Expect a stick shift in France—or a hefty surcharge*

AR RENTALS ABROAD: LONG AND WINDING ROAD

ing abroad and ed a set of wheels? s not as easy as opping by Rent-A-ck. Hiring transportation rseas can mean paying basic charges, plus such ly add-ons as insurance vers, drop-off fees, and liar airport levies. You face travel restrictions uch theft-prone spots as ner communist countries. in some places, you can et about automatic trans-sion and air conditioning. Vhile all that may make look twice at the train, difficulties of renting can nanaged. Making arrange-nts beforehand is essen-—preferably with help n an experienced travel nt. Booking and even pre-ing in U.S. dollars lets avoid unexpected rate nges and currency fluctu-ns. You'll get a voucher ling out whether unlimit-mileage is included, dou-digit value-added taxes paid, and what are the up and drop-off times. Your choice of a rental npany may depend on ether you intend to hop-tch around countries. If plan to pick up the car in ndon and Chunnel over to France, you might consider Hertz's "Le Swap" service, which provides a right-drive car in Britain and a left-drive replacement on the Continent. Hertz conveniently bundles the charges, so you'll pay about $445 a week for an economy-car package that includes tax, a collision-damage waiver, a round-trip ticket on the Eurotunnel train, and drop-off in Paris, if needed.

DAMAGE WAIVER. Generally, you'll pay more with a global operator such as Avis or Hertz than with the local equivalent of Jalopies-R-Us, but there are consolations. For one, if the car is damaged in an accident, you'll be able to deal with a domestic office back home, rather than haggle by transatlantic phone. Just keep all documentation. You can also feel more secure about getting amenities such as air conditioning or automatic transmission. It will cost extra though: over $80 a week more for an automatic in France, for example.

It might pay to shop around. For travel solely in Britain, Thrifty Rent-A-Car will provide a midsize car with an automatic transmission for about $332 a week, most charges included. Want air conditioning? With Thrifty, that means renting a Lexus at $604 a week plus $148 for a damage waiver and theft protection. If you drive out of the country, you'll face a 50% surcharge just for crossing a border.

Traveling about the Continent can raise problems. Fearing theft, some rental companies bar travel in Eastern Europe, charge extra for insurance waivers, or refuse to let you drop off a vehicle there. But practices vary: Auto Europe, a Portland (Me.) car-rental broker that subcontracts out to outfits such as Avis and Europcar, will arrange to rent General Motors cars for travel in Eastern Europe because they appeal less to thieves. Even in Western Europe, dashing about capitals can be problematic: One agent found a company that demanded $277 extra to pick up a car in Paris and drop it in Munich, while another charged $50.

HOT WHEELS

Outside Europe, renting can be still more challenging. Base price alone to hire an economy car with stick shift in Singapore tops $990 a week. In Moscow, a Ford Scorpio costs $192 a day with a driver, which is highly recommended. As for Tokyo, Nippon Interrent wants $463, plus damage waivers, for a minimum four-day rental. Renting in some spots can be an adventure: Jennifer Czerniak, industry relations director for Minneapolis-based Carlson Wagonlit Travel, says that once in Barbados she contracted with a U.S. company and wound up with a locally built open-air car called a Moke, which would never meet U.S. safety standards.

NIGGLES. Wherever you're traveling, check your insurance coverage first. Most American Express cards and MasterCard or Visa gold cards will pay for collision damage abroad, but read the fine print. Exotic cars such as DeLoreans are sometimes excluded, and corporate-card coverage varies by whatever terms employers negotiate. Practices differ by country, with Australia, Italy, and New Zealand requiring locally purchased rental-car coverage. Also check with your own auto insurer to see if you're covered for liability abroad.

Would-be global renters should also get an international driver's permit. Available at AAA offices for $10 with two passport-size photos, it translates your domestic driver's license information into several languages. It is often not mandatory for driving, but in countries such as Spain and Japan, you can't rent a car without it. *Joseph Weber*

TIPS FOR RENTING OVERSEAS

- Book in advance and prepay to save money, guarantee a rate, and make sure your car will be ready.
- Work through an experienced travel agent or a broker. They can find the best rates and most reliable suppliers.
- Check your credit cards and your own auto insurer to see if you're covered for damage and liability, and buy waivers from the rental companies if you're not.
- Ask for automatic transmission and air conditioning, since they are often unavailable and cost more. Also, request such extras as a child safety seat.
- Get an international driving permit at AAA. Though not universally required, it's helpful backup identification.

DATA BUSINESS WEEK

"I've got a pager,

a fax machine,

a laptop, e-mail,

voice mail,

carri
pig

and a

cell phone.

So why can't

I find out

what I need to know?"

CONNECT

Despite all the gizmos, your salespeople can't stay out on the road and still place orders, arrange shipments, submit invoices and expenses, and connect with your customer database.

If you're managing a sales force, that's an expensive problem. Every minute your people waste driving back and forth to fill in paperwork or pick up information is chipping away at time spent with customers and your bottom line. It's time to cut the cord. Talk to us about implementing a sales force automation strategy.

The IBM Sales Force Transformation C will assess your automation needs, then des build and implement the solution. Instead o reports, you get results.

They can take all the valuable informati in your files and make it accessible to all of y

er
eons

from the road. From Rio to Reykjavík and
ner cities around the world, your salespeople
into your data over the fast lane of the
obal Network,™ one of the world's largest,
secure data networks.
very day, more people and more information
king the world of networked computing
of incredible opportunity and transforma-
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Deutsche Telekom
http://www.dtag.de

Digital PC
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Federal Emergency Management Agency
http://www.fema.gov

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Ford
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International Institute for Management Development
http://www.imd.ch/

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Janus Funds
http://networth.galt.com/janus

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http://www.kodak.com/

Lexus
http://www.lexususa.com

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Ohio Department of Development
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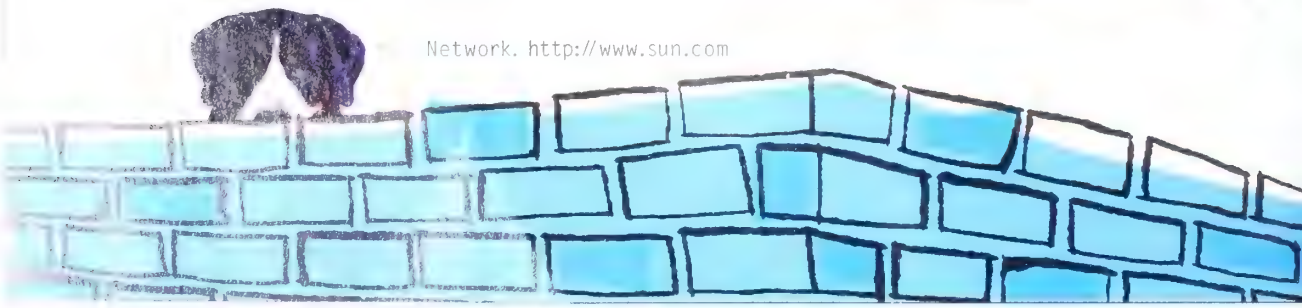
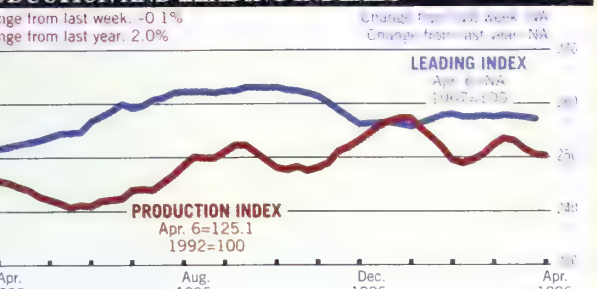


usiness Week Index

DUCTION AND LEADING INDEXES

nge from last week. -0 1%
nge from last year. 2.0%



xes are 4-week moving averages

roduction index fell slightly during the week ended Apr. 6. However, e calculation of the four-week moving average, the index jumped to 3, from 125. In the latest week, seasonally adjusted output of autos and s continued to rebound after the strike at General Motors Corp. cut ction in mid-March. That snapback offset drops in steel and lumber t.

eading index is unavailable for the latest week.

duction index copyright 1996 by The McGraw-Hill Companies BW leading index copyright 1996 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/13) thous. of net tons	1,961	2,045#	-0.7
AUTOS (4/13) units	111,195	109,685r#	-5.1
TRUCKS (4/13) units	107,656	101,338r#	15.3
ELECTRIC POWER (4/13) millions of kilowatt-hrs.	54,928	55,386#	1.2
CRUDE-OIL REFINING (4/13) thous. of bbl./day	14,003	13,867#	2.8
COAL (4/6) thous. of net tons	19,317#	20,672	-1.2
PAPERBOARD (4/6) thous. of tons	NA#	865.3	NA
PAPER (4/6) thous. of tons	NA#	794.0	NA
LUMBER (4/6) millions of ft.	430.5#	472.0	1.2
RAIL FREIGHT (4/6) billions of ton-miles	24.5#	25.5	-0.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA1, SFPA2, Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (4/12) S&P 500	636.71	655.86r	25.5
PORATE BOND YIELD, Aaa (4/12)	7.77%	7.59%r	-4.4
STRIAL MATERIALS PRICES (4/12)	110.3	109.9	-3.8
NESS FAILURES (4/5)	NA	321	NA
ESTATE LOANS (4/3) billions	$506.7	$506.6	7.4
EY SUPPLY, M2 (4/1) billions	NA	$3,685.7	NA
AL CLAIMS, UNEMPLOYMENT (3/30) thous.	347	406	1.2

ces: Center for International Business Cycle Research (CIBCR), Standard & , Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures ge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ess failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/17) $/troy oz.	391.100	394.550	-0.4
STEEL SCRAP (4/16) #1 heavy, $/ton	139.50	139.50	1.5
COPPER (4/13) ¢/lb.	119.5	117.1	-15.5
ALUMINUM (4/13) ¢/lb.	76.0	77.0	-15.6
COTTON (4/13) strict low middling 1-1/16 in., ¢/lb.	86.10	84.27	-19.4
OIL (4/16) $/bbl.	24.30	23.02	20.9

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (4/16)	5.17%	5.07%	6.07%
MERCIAL PAPER (4/17) 3-month	5.39	5.41	6.09
IFICATES OF DEPOSIT (4/17) 3-month	5.36	5.37	6.10
D MORTGAGE (4/12) 30-year	8.28	7.99	8.57
JSTABLE MORTGAGE (4/12) one-year	5.92	5.76	6.35
E (4/17)	8.25	8.25	9.00

ces: Federal Reserve, HSH Associates, Bloomberg Financial Markets

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/17)	108.13	108.46	83.60
GERMAN MARK (4/17)	1.51	1.50	1.39
BRITISH POUND (4/17)	1.51	1.51	1.60
FRENCH FRANC (4/17)	5.12	5.09	4.89
ITALIAN LIRA (4/17)	1575.3	1571.0	1733.3
CANADIAN DOLLAR (4/17)	1.36	1.36	1.37
MEXICAN PESO (4/17)[3]	7.425	7.483	6.020

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

RNATIONAL TRADE

day, Apr. 23, 8:30 a.m.EDT ▶ The gn trade deficit of goods and ser- probably narrowed sharply in uary to $9 billion. That's accord- o the median forecast of econo- s surveyed by MMS International, f The McGraw-Hill Companies. nuary, the trade gap widened to -month high of $10.3 billion as rts fell 2.2%, and imports rose . For February, the MMS forecast at exports rebounded while rts held steady. Foreign trade ally subtracts from economic growth in the first quarter and this year should be no different.

DURABLE GOODS ORDERS

Wednesday, Apr. 24, 8:30 a.m.EDT ▶ New orders taken by durable-goods manufacturers likely increased by 0.5% in March, says the MMS survey. That would follow declines of 0.6% in January and 2.3% in February. Most of the weakness has been in demand for aircraft and motor vehicles. Excluding transportation equipment, new orders have increased for three consecutive months.

UNEMPLOYMENT CLAIMS

Thursday, Apr. 25, 8:30 a.m.EDT ▶ Initial claims for unemployment benefits probably stood at about 325,000 for the week ended Apr. 20. The ripple effect of the General Motors Corp. strike had lifted filings above 400,000 for the last two weeks of March. But claims fell back to 350,000 in early April.

EXISTING HOME SALES

Thursday, Apr. 25, 8:45 a.m.EDT ▶ Existing home sales likely slipped to an annual rate of 3.7 million in March, after rising 6.9% in February.

PICK A MULTIVENDOR ENVIRONMENT IN COMPANIES LIKE THESE ›

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HEWLETT PACKARD

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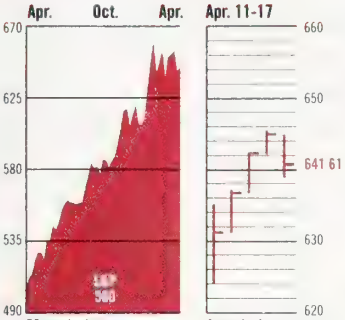
vestment Figures of the Week

NTARY

g strength in corporate nd modest improvement in lped stocks rebound. In Dow industrials rallied 5620 on Apr. 16. The next ers first cheered IBM's earnings, then started Big Blue when it said rices would crimp future IBM closed down 10 ccounting for nearly half w's 70-point plunge. Look- ad, the big action was the border: Mexican stocks 5.1% for the week.

STOCKS



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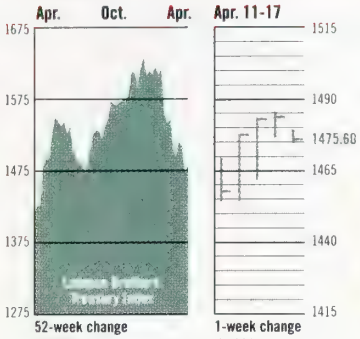
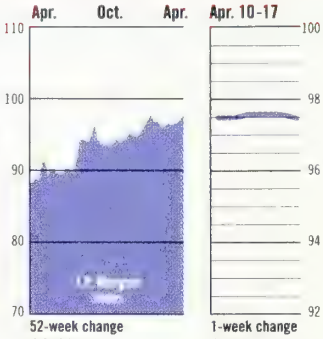


THE DOLLAR



KET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
ES INDUSTRIALS	5549.9	1.2	31.9
COMPANIES (S&P MidCap Index)	228.6	0.4	25.9
OMPANIES (Russell 2000)	334.9	1.2	28.5
PANIES (Russell 3000)	367.1	1.2	28.0

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3805.6	1.0	20.0
IKKEI INDEX)	21816.2	0.1	33.2
(TSE COMPOSITE)	5062.9	0.8	18.2

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	4.95%	5.09%	5.75%
30-YEAR TREASURY BOND YIELD	6.80%	6.94%	7.36%
S&P 500 DIVIDEND YIELD	2.19%	2.19%	2.55%
S&P 500 PRICE/EARNINGS RATIO	18.8	18.7	16.7

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	602.5	600.1	Positive
Stocks above 200-day moving average	61.0%	58.0%r	Neutral
Speculative sentiment: Put/call ratio	0.63	0.59	Neutral
Insider sentiment: Vickers sell/buy ratio	2.33	2.40	Neutral

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

ONTH LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
ND GAS DRILLING	26.8	77.9	ROWAN	39.8	136.5	15 3/8
XPLORATION AND PRODUCTION	10.1	5.2	ORYX ENERGY	24.3	29.3	16
S	8.8	66.1	STRIDE RITE	22.9	–8.5	10 3/4
NSE ELECTRONICS	8.4	111.3	LORAL	10.2	135.5	51 3/8
MOBILES	7.5	30.4	GENERAL MOTORS	9.6	30.5	57 1/4

ONTH LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
TH CARE SERVICES	–9.0	44.6	AMGEN	–12.3	60.4	54 1/2
L AND GLASS CONTAINERS	–7.0	2.3	CROWN CORK & SEAL	–8.0	7.8	44 7/8
BUILDING	–6.8	15.6	KAUFMAN & BROAD HOME	–12.4	9.7	14 1/8
NEERING AND CONSTRUCTION	–6.7	28.2	FOSTER WHEELER	–9.0	22.8	41 3/4
RTAINMENT	–6.5	5.7	WALT DISNEY	–10.1	14.2	62 1/4

UAL FUNDS

MORNINGSTAR INC

RS

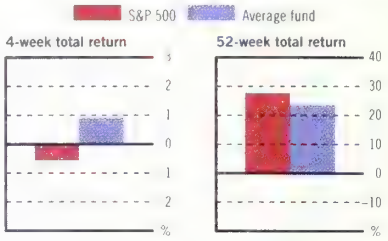
ek total return	%
STREET RESEARCH GLOBAL RES. A	13.3
URG PINCUS ADVISOR JAPAN OTC	11.9
URG PINCUS JAPAN GROWTH COMM.	11.2

total return	%
TREND GOLD	80.7
RECIOUS METALS A	77.1
ER SMALL CAP EQUITY	73.6

LAGGARDS

Four-week total return	%
MERRILL LYNCH TECHNOLOGY A	–12.2
ROBERTSON STEPHENS VALUE + GROWTH	–6.1
STEADMAN TECHNOLOGY GROWTH	–5.1

52-week total return	%
STEADMAN TECHNOLOGY GROWTH	–21.3
EV MARATHON GREATER INDIA	–16.0
STEADMAN AMERICAN INDUSTRY	–12.2



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

mounts represent the value of $10,000 one year ago portfolio

tages indicate total returns

U.S. stocks	Treasury bonds	Foreign stocks	Money market fund	Gold
$13,009	$11,325	$11,231	$10,549	$10,253
+0.44%	+0.74%	+0.54%	+0.11%	–0.06%

n this page are as of market close Wednesday, Apr. 17, 1996, unless otherwise indi- dustry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 16. Mutual fund returns are as of Apr. 12. Relative portfolios are valued as of Apr. 16. A more detailed explanation of this page is available on request. r=revised

A PORTABLE HEALTH PLAN WITH NO BAGGAGE

The perfect is sometimes the enemy of the good. This is certainly true of the health-insurance legislation now being taken up by Congress. The "good" core of the package is simple and direct: Insurers will be required to sell health insurance, without regard to existing medical conditions, to workers who lose or change jobs. A daughter's leukemia, for instance, will no longer force a parent to remain with the same employer solely to retain insurance coverage. The legislation doesn't do much for the 40 million uninsured or those who must buy their own individual policies because their employers do not provide them. But it is a significant help for the 150 million or so workers and their dependents who are covered by employer-provided insurance.

Trouble is, the relatively straightforward Senate bill is about to become the target for amendments reflecting different definitions of perfection. Some might be hugely expensive—such as requiring insurance coverage for mental-health care on a par with other health-care coverage. Others would interfere with medical judgments—such as requiring 48-hour post-maternity hospital stays. Still others suggest new payment options—such as setting up tax-deductible medical savings accounts (MSAs) to pay for routine health expenses. This highly controversial proposal holds considerable merit and ought to be tried on a pilot basis in some states. But debate over the MSA amendment shouldn't become yet another excuse for Washington to delay.

Congress should focus on the stripped-down Senate bill sponsored by Republican Nancy L. Kassebaum of Kansas and Democrat Edward M. Kennedy of Massachusetts. If Congress succeeds in passing a law that promotes portable health insurance, it will be a major accomplishment in a year marked by a degree of squabbling and inaction remarkable even for Washington.

LET THE WALLS COME TUMBLING DOWN

Does your office work? Think of the space you work in and the space your boss works in and the space that your boss's boss works in. If you're like most habitués of glass boxes and towers, these offices are delineated in a predictable manner. Thanks to decades of convention, square footage grows with rank, and windows and corner suites go to the top dogs. Now, some managers are asking: Are offices set up to help employees work efficiently? Can co-workers interact easily on projects? Would revenues be higher if some salespeople didn't have to come into the office at all?

The experimentation in new office designs and work styles is exciting (page 106). But mobile furniture, sleek laptops, and commutes that stretch from your bed to your home don't guarantee greater productivity. For the new physic signs to succeed, managers have to be committed to nizing and managing workers more creatively and to foc on results rather than tired old performance measures

Too many managers still measure productivity by time," sometimes favoring those who appear to be bu their desks over those achieving much more on the ro off huddling at a coffee bar to meet a project deadlin used to be that power was [a worker's] relative distan the CEO's office," says James P. Hackett, chief execut Steelcase Inc., which manufactures office furniture. " it's one's proximity to knowledge." It will take time for agers to empower employees to seek that knowledge, wh it's at a customer's office, at a brainstorming session, or in cyberspace. But doing so makes sense.

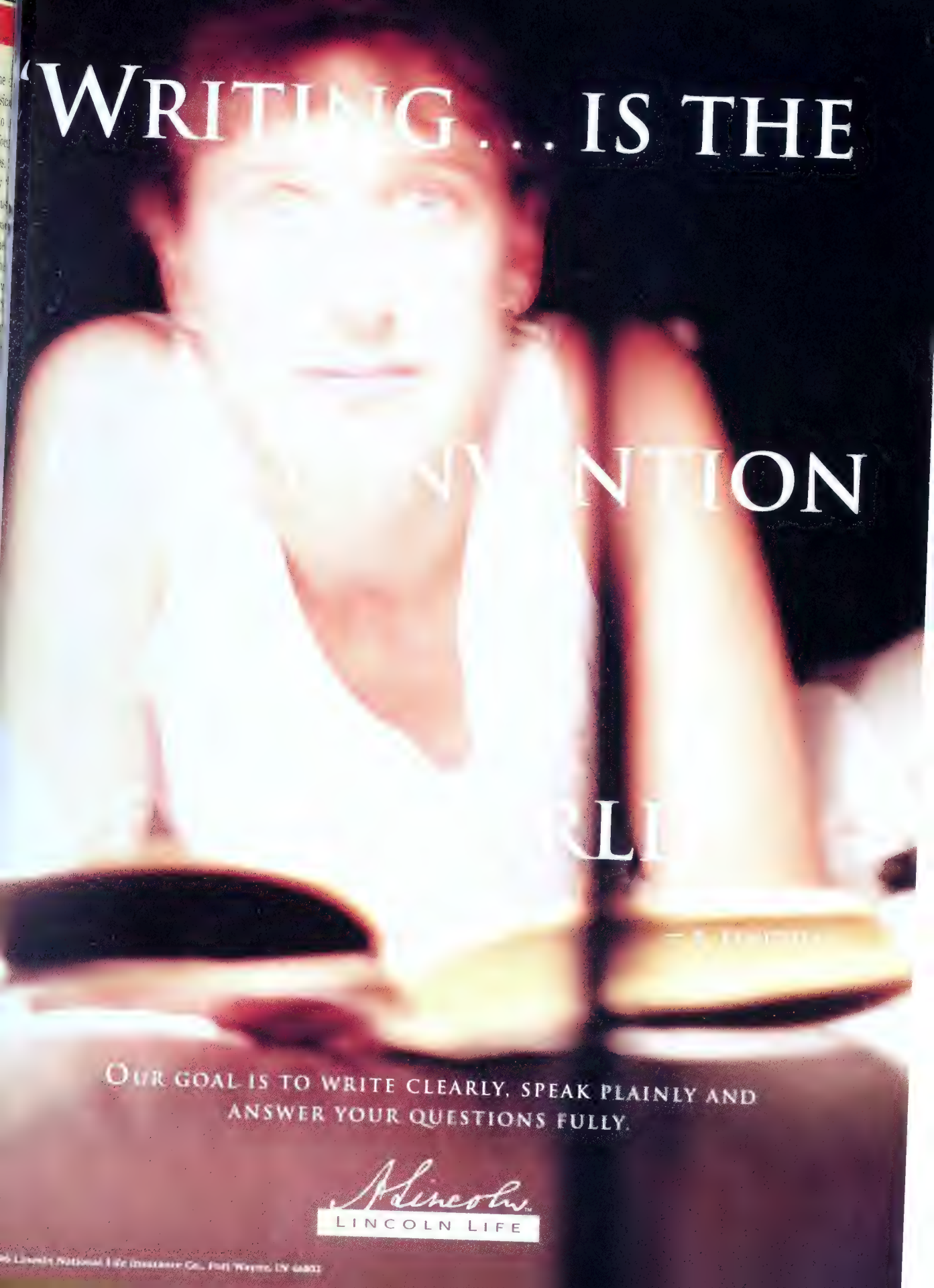
IS INDIA ABOUT TO THROW IT ALL AWAY?

Economic reform is taking it on the chin all ove globe. Mexicans still feel the effects of 1994's pes valuation that cast a pall over a much-heralded liberali effort. Russians are contemplating the return to pow communists who denounce privatization. And citizens world's largest democracy, India, may shortly vote o office the ruling Congress party, which for the pas years has presided over economic liberalization (page 5

The backlash against the elimination of tariffs, the lift government regulations, and the privatization of sta dustry is understandable. As statist, highly regu economies are transformed into freer capitalist econo competition heats up and more people and more busin must fend for themselves. And as the opportunitie growth multiply, so do those for graft. Still, India has better than many countries in making the transition—in because monetary policy has kept a lid on inflation and i because reforms have not been adopted wholesale.

There's so much further to go. Stop-and-start po wreak havoc, and plodding along, as some Indian polit would prefer, doesn't spread the gains from liberaliz The coalition government that is likely to rule the world' ond-largest country cannot allow the reform process to Instead, it should make every effort to clean up corrupti cutting the role of government in the economy. Th should move full speed ahead to reform antiquated laws and put more and more production in private han

Foreign direct investment, which has been modest far, needs to increase. But it will only do so if the new ernment eschews political grandstanding about fendin modern "colonialists." American and European comp should not despair. Yes, investing in India can be a tor process, as companies such as Enron Corp. and KFC found out. Over time, though, this market of nearly 1 b people promises great rewards.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